



Imasco

1 9 9 5
Annual Report



1970-1995

Imasco Limited

Over our 25-year history, Imasco has evolved into a leading consumer products and services growth company with operations in Canada and the United States. Consumers know us as:



Imperial Tobacco, manufacturer of a full range of quality tobacco products and industry leader in Canada, with a 66.3% share of the cigarette market. Trademarks include *du Maurier* and *Player's*, the two largest-selling domestic brand families.



Canada Trust and **First Federal Savings and Loan Association of Rochester**, the two principal operating companies of **CT Financial Services**. Both are market leaders in personal banking and investment management services. CT Financial Services administers assets of \$197 billion, including corporate assets of \$52 billion.



Hardee's Food Systems, operator of the fourth-largest quick-service hamburger restaurant company in the United States, with system sales of \$6.2 billion.



Shoppers Drug Mart/Pharmaprix, Canada's leading drugstore group, with locations coast to coast and system sales of \$3.3 billion. Pharmacy and over-the-counter medications are core businesses.



Genstar Development Company, creator of master-planned residential communities and developer of serviced lots and parcels sold to home builders in selected North American markets.

Theme

Consistently giving customers products and services they value leads to market success – the keystone of shareholder value. To illustrate some of the ways the Imasco companies create value for consumers, this report includes a special feature beginning on page 17.

Internet

News releases, annual report highlights, and a great deal more can be found at <http://www.imasco.com>

Contents

1	Financial Highlights
2	Chairman's Message
3	CEO's Report
7	du Maurier and the Arts: The First 25 Years
8	Operations Review
17	Pleasing Customers = Shareholder Value
23	Corporate Governance
24	Board of Directors
26	Imasco in the Community
28	Management's Discussion and Analysis
44	Management Report
44	Auditors' Report
45	Audited Financial Statements
68	Company Information and Officers
70	Investor Information

Financial Highlights

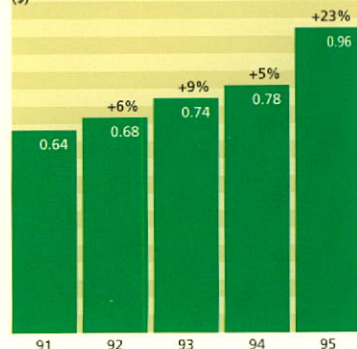
In millions of dollars, except as noted

	1995	1994	1993	1994-95	1993-94
				% change	% change
Operating results					
System sales ¹	16,715	16,268	16,242	3	—
Revenues, net of tobacco taxes and duties ¹	8,641	7,976	7,761	8	3
Net earnings, before special charge ²	546	506	409	8	24
Net earnings ²	221	506	409	(56)	24
Earnings from operations					
Imperial Tobacco	645	592	462	9	28
CT Financial Services	427	333	232	28	44
Hardee's Food Systems ¹	27	133	96	(80)	39
Shoppers Drug Mart	96	102	100	(7)	2
Genstar Development Company	21	27	33	(23)	(19)
Earnings from operations, before special charge ^{1,2}	1,216	1,187	923	2	29
Earnings from operations ^{1,2}	891	1,187	923	(25)	29
Financial condition					
Cash from continuing operations ¹	804	914	790	(12)	16
Capital expenditures ¹	468	278	292	68	(5)
Shareholders' equity	3,264	3,337	3,100	(2)	8
Debt to total capital ratio ¹	35.3%	36.6%	39.1%		

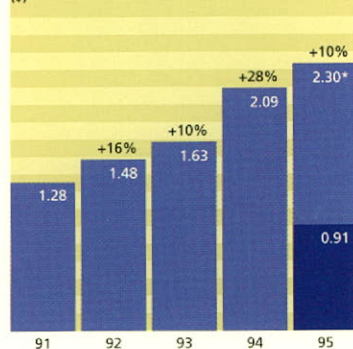
¹ Certain comparative amounts have been restated to conform with the current year's presentation.

² The special charge of \$325 million (US \$239 million) relates predominantly to Hardee's Food Systems' intention to sell its Roy Rogers restaurants.

Dividends per common share
(\$)



Earnings per common share
(\$)



*Before special charge

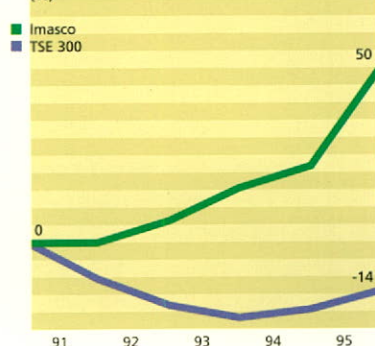
Dividends per common share

Over the past five years the dividend has increased at an annual compound growth rate of 8.4%. The indicated annual dividend for 1996 is \$1.08 per share, an increase of 12.5%.

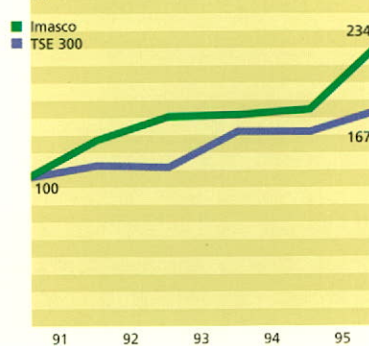
Earnings per common share

Before the special charge, 1995 earnings per common share increased 10%, and over the past five years they have increased at an annual compound growth rate of 15.5%.

Dividend performance
(%)



Total return to shareholders
(\$)



Dividend performance

Imasco's common share dividend has risen 50% over the past five years, compared with a 14% decline for the TSE 300.

Total return to shareholders

With dividends reinvested, a 1990 investment of \$100 in Imasco common shares has outperformed the TSE 300 and would have grown to \$234 by the end of 1995.

Chairman's Message



"A great strength of this organization is that, even in the best of times, it searches for ways to make the businesses more cost-efficient and responsive to consumers."

Imasco celebrated its silver anniversary in 1995. A quarter century of operations has generated many notable achievements and the occasional setback. Overall, Imasco has rewarded its shareholders well. With dividends reinvested, the compound rate of return to shareholders over the 25 years has been nearly 20%, an extraordinary performance. Of course, Imasco will not be resting on its laurels. A great strength of this organization is that, even in the best of times, it searches for ways to make the businesses more cost-efficient and responsive to consumers.

Board of Directors

We are fortunate to have an outstanding board of men and women who consistently bring objectivity, experience, and wisdom to the task of governing Imasco. On behalf of our shareholders, I would like to acknowledge their invaluable contributions and thank them sincerely.

At the end of December Bob Autry retired from the Board, and Steve McManus, Hardee's incoming CEO, has been named to replace him. Bob's career with the company began at Fast Food Merchandisers. He took the helm at Hardee's in 1991 during a difficult period and did an exceptional job of streamlining the company. We are grateful for his dedication and leadership, and we wish him every success.

The manner in which boards of directors supervise the affairs of corporations has increasingly been subject to scrutiny, and The Toronto Stock Exchange recently issued guidelines for effective governance. Imasco conforms to the guidelines in all material respects, but it is important to note that conformity with the guidelines is not an end in itself. The result we are all striving for is enhanced value for shareholders. Detailed information on Imasco's corporate governance system can be found in the 1996 management proxy circular.

The future of Canada

Fall proved nerve-wracking for Canadians, as the October 30th referendum in Québec nearly unhinged the country. Imasco has always supported Canadian unity. While we acknowledge the yearnings of many Québecers for their own country, it is our belief that political separation does not make economic sense. Moreover, it cannot be denied that Québec culture and the French language have flourished under the federal system. This is not to argue for the status quo: change is both inevitable and desirable for this country to fully realize its great potential. Our challenge as a nation is to view the current political unrest as an opportunity to create changes that will benefit Canada and all Canadians.

Not only do Canadians have serious political issues to resolve, but we are also saddled with crippling government

deficits. However, there is encouraging evidence of increased fiscal responsibility on the part of governments. We must support these efforts and urge our political leaders to stay the course. Getting back on track will involve sacrifices in the short run, but all citizens will ultimately benefit from living in a country with restored financial health.

Outlook

Given Imasco's culture of achievement and its proactive business development activities, I am very positive about the strength of our businesses and their ability to grow. A board of directors' paramount means of control is the calibre and integrity of management. The Imasco Board has great confidence in Brian Levitt and his team of leaders, and we fully expect that Imasco will continue to provide attractive returns, in keeping with our 25-year tradition of creating shareholder value.

A handwritten signature in dark ink, reading "Purdy Crawford".

Purdy Crawford
Chairman

January 31, 1996

we mark with profound regret the death on February 26, 1996, of Paul Paré, former Chairman, President, Chief Executive Officer, and Director of Imasco.

Paul Paré took over the leadership of Imperial Tobacco Company of Canada in 1970, when the company was entering new fields of interest. To reflect this wider vision, he established Imasco Limited as the head office and guiding spirit of what became under his stewardship a new, diversified group of companies. The breadth and depth of Imasco's interests today and its financial success are testimony to his vision and perseverance.



Paul Paré began his business career after World War II, during which he served as a Lieutenant-Commander in the Royal Canadian Navy. He completed his law degree at McGill University, but soon abandoned law for business. He interrupted this career to serve two years in the Depart-

ment of National Defence, Ottawa, as executive assistant to the minister.

Paul Paré's style of management was informal but demanding. He kept an open door and an open mind and was probably the last executive in Canada to answer his own phone. He was an enthusiastic leader, always ready to listen to ideas and suggestions. He encouraged talent and rewarded accomplishment.

His contributions to the social, sports, and business communities were many and frequently acknowledged with public awards, including being named an Officer of the Order of Canada in 1984, celebrated as a Great Montrealer in 1986, elected to the Canadian Business Hall of Fame in 1992, and designated 1994 Honorary Associate of the Conference Board of Canada.

In his private and public life, Paul Paré exemplified the qualities of honesty and integrity that distinguish a true leader. He served his country with courage in both war and peace. He was a staunch defender of Canada and during the 1980 Québec referendum worked tirelessly behind the scenes, frequently lending his respected voice to the cause of Canadian unity. He wholeheartedly loved Montréal and Québec, and he fervently believed in Canada. It is of such fabric that great countries are made.

We at Imasco join with Paul Paré's family and many thousands of friends in mourning the loss of a generous and great Canadian.

"Our mission is to build value for shareholders.
We clearly accomplished this in 1995."



Shareholders can look back on 1995 as a busy year for Imasco characterized by significant operational and financial accomplishments. Early in the year the Board of Directors expressed its confidence in Imasco's prospects by proposing a two-for-one stock split and increasing the dividend on our common shares by 23%. The company went on to perform well in relation to its short-term financial goals, as strong results from Imperial Tobacco and CT Financial Services offset significant weakness at Hardee's Food Systems.

At the same time progress was made at all our businesses in enhancing long-term competitiveness. For Hardee's this included zeroing in on one brand and posting a \$325 million special charge, predominantly related to the decision to sell the Roy Rogers restaurants. As investors assessed our performance and longer-term initiatives during the year, Imasco's shares outperformed the Canadian stock markets by a wide margin. Our mission is to build value for shareholders. We clearly accomplished this in 1995.

Imasco's performance is the direct result of the effort and commitment of the approximately 200,000 employees in our system. As the competitive intensity picked up last year, our employees rose to the challenge, and they did so in a climate of uncertainty and change. The results speak for themselves. On behalf of the

Board of Directors and shareholders, I want to express our heartfelt thanks and appreciation.

Performance against financial objectives

The special charge at Hardee's had a significant impact on Imasco's reported results. Exclusive of the charge, per share earnings were up 10% over the prior year, and Imasco's return on average common shareholders' equity was 16.1%. Our objectives call for a 15% annual growth in earnings per share and an ROE that exceeds 15%.

Another performance standard used by Imasco is economic profit, which measures returns from business activities after deducting the cost of capital employed. In 1995 Imasco's economic profit was \$176 million, compared with \$154 million in 1994.

A key objective is to generate net cash available (cash after capital expenditures and dividends) of at least 50% of common share dividends. In 1995 we generated \$100 million or 45% of dividends. The 5% shortfall can be attributed to lower earnings at Hardee's.

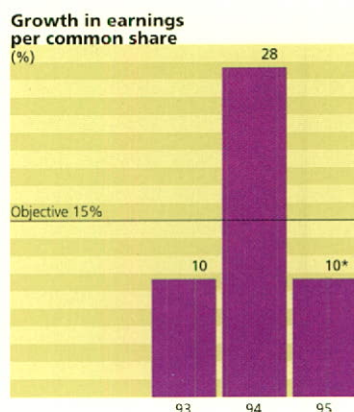
Capital expenditures in 1995 were \$468 million, compared with \$278 million in 1994. The most significant increase was at Shoppers Drug Mart, which is now about halfway through Vision 97, a program that will centralize the company's buying, distribution, and accounting activities. Vision 97 repre-

sents an investment of approximately \$250 million over two years. A return to more normal levels of capital expenditures for Shoppers and for Imasco as a whole is expected in 1997.

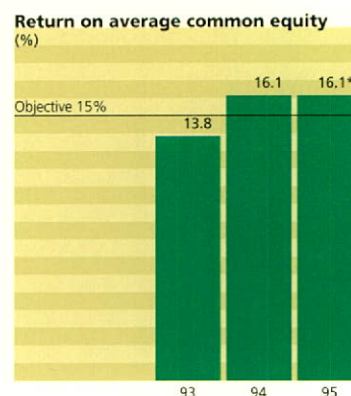
Our focus on generating free cash flow enables Imasco to reinvest in our businesses while making significant distributions to shareholders. In 1995 we bought back \$50 million of common stock under our normal course issuer bid program. When combined with the \$224 million paid out in common share dividends, the total payout was 51% of earnings attributable to common shares (before the special charge), which compares with 56% paid out in 1994.

Imasco's earnings and solid financial structure allowed us to absorb the Hardee's special charge while further strengthening the balance sheet. At year-end Imasco's ratio of long-term debt to total capital stood at 35.3%, down more than 1% from the previous year and very close to our objective of 35%.

The most pertinent objective is to deliver a superior return to investors, and on this measure shareholders certainly had reason to be pleased with our 1995 performance. The total return on Imasco's common shares for the year was 38.7%, compared with 14.5% for the TSE 300. The comparable figures for the three- and five-year periods ended December 31, 1995 are 13.2% and 18.5% for Imasco, against 14.9% and 10.8% for the TSE 300.



* Before special charge



* Before special charge

At the end of 1995 the total market value of Imasco's common equity was \$6.2 billion, nearly double what it was five years earlier.

Asset management

Imasco sold The UCS Group in 1995, and we announced our intention to sell the Roy Rogers restaurants as well. Both decisions are in keeping with Imasco's commitment to act decisively when a portfolio change can enhance shareholder value.

The UCS Group was a member of long standing in the Imasco family. Apart from its contribution to profits, UCS also served as a window on the retail distribution of tobacco products. In recent years tobacco distribution channels changed, and the scale of our other businesses began to dramatically outstrip that of UCS. In addition, the loss of the tobacco concession for Canadian Woolco stores in 1994 meant that, to resume a growth pattern, UCS would have to evolve away from tobacco retailing. For all these reasons we decided that Imasco was no longer the best owner of UCS. With the sale we were able to optimize both shareholder value and the future prospects of UCS employees and suppliers. We wish continued success to David Stewart and his colleagues at UCS.

The decision to sell our Roy Rogers restaurants was announced in December, and we have now reached agreements to sell most of the New York restaurants. We expect to sell the remaining restaurants in 1996. The Roy Rogers acquisition was made in 1990 with a view to establishing a presence for the Hardee's brand in the Northeast United States. This strategy was based on a marketing premise that proved unsound. While recent repositioning work at Roy Rogers shows promise, operating a second brand dilutes the management focus currently required at Hardee's.

The enduring lesson of the Roy Rogers affair has been learned and is reflected in the rigour of Imasco's current strategic monitoring efforts. I would like to salute Al Schnitzlein and his colleagues at Roy Rogers for an outstanding job of running restaurants under very difficult conditions. The knowledge gained from their market tests and brand repositioning work will be of great value to Hardee's in the near term.

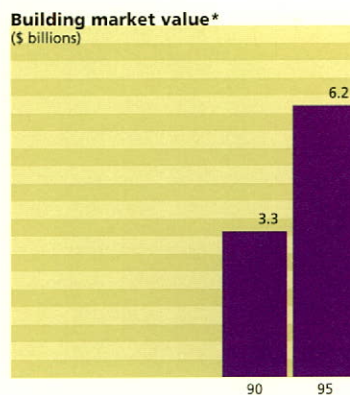
Imperial Tobacco

Imperial Tobacco turned in another outstanding year in 1995. Details of the market share gain and improvements on virtually all performance measures are found in the Imperial Tobacco section of this report. Equally impressive, if less visible, was the progress that Imperial made in assuring its future success. Under the leadership of Don Brown and his man-

agement team, a reorganization is taking shape that will improve productivity and enhance the company's capacity to act quickly and effectively. In keeping with Imasco's guiding principles, Imperial is making these fundamental changes at perhaps the most difficult time to do so – when the business is highly successful.

Tobacco continued to make headlines in 1995. Most notably, in September the Supreme Court of Canada struck down the provisions of the Tobacco Products Control Act that had banned tobacco advertising. Smoking of tobacco is a well-established social and cultural phenomenon in our society. It has been declining on a modest but consistent basis for many years. As is the case with other social practices, change can be encouraged, but not forced beyond a certain pace. The consequences of attempts to push the pace too quickly were graphically demonstrated in the smuggling catastrophe of 1990-94.

Imasco does not object to reasonable regulations governing tobacco products, particularly relating to minors. In this context, we believe the Voluntary Packaging and Advertising Code announced by the Canadian tobacco industry in December represents a balanced approach to competing interests that is consistent with the Supreme Court's decision. We continue to be concerned about extreme regulatory policies that are unlikely to materially impact smoking patterns,



* Total market value of Imasco's common equity at year-end. Shares outstanding: 1990 – 238.2 million; 1995 – 232.3 million.

particularly if they interfere with the rights of Canadian citizens to give and receive information about tobacco. Such policies also threaten the livelihood and property of the thousands of Canadians involved in growing, manufacturing, and selling tobacco products. We stand ready to do our part to help achieve a balanced solution to these contentious issues.

CT Financial Services

CT Financial Services' excellent performance in 1995 resulted from a number of actions taken in recent years to position itself as the best retail financial services provider in the markets it serves. Ed Clark and his team have done an outstanding job enhancing the competitiveness of the base business while building for continuing success. New initiatives are under way to modernize and add to the substantial foundation that Canada Trust has established in wealth management services.

In December CT Financial implemented an innovative plan to optimize its capital structure. The reorganization included the payment of a special dividend of \$1.50 per common share, resulting in Imasco's receipt of \$175 million in addition to the regular dividend of \$94 million. As part of the plan, Canada Trustco Mortgage Company issued perpetual preferred shares to which voting

rights can be attached, in order to satisfy the federal requirement for a 35% public voting float by June 1997. The new capital structure will increase CT Financial's return on equity by approximately 1.2%. The changes were accomplished without any impact on credit ratings or regulatory standing, and financial markets signalled their approval with a substantial increase in CT Financial's stock price.

Hardee's Food Systems

Hardee's performance was the only significant weakness in Imasco's 1995 results. Efforts have been under way since 1994 to reposition the brand for sustainable growth in the intensely competitive quick-service restaurant industry. By mid-year it was evident that Hardee's 1995 program was not meeting the competition, particularly in operations and marketing. As detailed in the Hardee's section of this report, the result was a disappointing decline in revenues and earnings.

In September Steve McManus was recruited to take over the leadership of Hardee's. During the fourth quarter he brought on board a number of key executives with substantial industry experience and strong records of achievement in similar circumstances. Steve understands the licensee perspective, having worked for over 25 years at Flagstar, Hardee's largest licensee. He has been rebuilding bridges to the licensee community, which has a key role to play in Hardee's turnaround.

Throughout the year Fast Food Merchandisers supported the Hardee's system on a competitive and cost-effective basis. The benefits of productivity initiatives undertaken in 1994 were realized in 1995 and enabled FFM to institute a prompt payment discount program and make other changes for the benefit of Hardee's licensees. Winslow Goins and his team continue to do an excellent job.

We are committed to getting Hardee's back on track and have provided capital for testing concept enhancements and for other initiatives aimed at re-establishing confidence in the brand and the organization. We are looking for improved results in 1996 as Steve and his team take hold.

Shoppers Drug Mart/Pharmaprix

Shoppers Drug Mart performed very well in 1995. The entrepreneurial prowess of our Ontario associates, supported by marketing programs from Shoppers' central office, largely overcame the loss of gross margin dollars resulting from the Ontario government's decision to remove tobacco from pharmacies. Significant start-up costs related to Vision 97 were also absorbed.

David Bloom and his team are ensuring that Shoppers is positioned to deal with intensified competition among retailers and the rapid evolution of the pharmacy

“Our management approach is to insist upon high standards for short-term performance while building for success over the longer term.”

business. A number of initiatives are under way, based on a thorough understanding of the drivers of industry change. The most advanced of these initiatives is Vision 97, and a second major project focuses on the role that community pharmacists can play in controlling health-care costs while adding value to patient care.

The pressures that challenge Shoppers have also accelerated consolidation in the retail pharmacy business. When an individual pharmacist or a small chain decides it needs to be part of a larger organization to remain competitive, Shoppers is the natural place to turn. In 1995 the store network grew from 689 to 717 stores, with the bulk of growth coming from acquisitions. A major acquisition is now on the horizon. In October an agreement was reached to purchase the 135-store Big V pharmacy chain in southwestern Ontario, and this transaction is expected to be completed in the first quarter of 1996.

Genstar Development Company

Genstar Development's decline in operating earnings reflected the weakness in the Canadian housing market in 1995. The effects of the market decline were cushioned by management's ingenuity in selling land parcels in Canada, and also by the start of what will be growing contributions from projects undertaken over the last few years in U.S. markets. Gen-

star's strategic orientation recognizes that the company's greatest opportunity lies in growth regions of the United States. These regions are being developed in large part through joint ventures and other formats, which require less long-term capital investment and, through faster land turnover, use the capital more efficiently.

After 34 years with the company and 12 years as its leader, Les Cosman retired at the end of 1995. Les has many achievements to his credit, including initiating Genstar's U.S. strategy. He has also developed a very capable successor in Frank Thomas. We thank Les for his considerable contributions and wish him well in his future endeavours.

A customer-centred culture

At Imasco we appreciate that outstanding human resources are a main source of competitiveness. In last year's annual report we pointed out that for consumer-driven companies like ours, ongoing investments in employee learning lead to the innovative products and improved customer service that are essential to industry leadership.

This year we chose to continue that story by focusing on how some of these products and services are developed and delivered to our customers. A feature article titled "Pleasing Customers = Shareholder Value" begins on page 17. The feature illustrates the link between customer satisfaction and shareholder value. Achievement of these complementary

objectives is driven by the genuine satisfaction that individuals like Marcel Fortier and Caroline Jannantuono (to name just two) take in serving their customers well. There are countless such members of the Imasco family – employees who represent our company in ways that shareholders can be proud of.

Outlook

At its initial meeting of 1996 the Board of Directors voted to increase the common share dividend by 12.5%, reaffirming its confidence in Imasco's plans and prospects. Our management approach – which has stood us well in the turbulent business environment of recent years – is to insist upon high standards for short-term performance while building for success over the longer term. Guided on this course by our committed team of operating leaders, Imasco can look forward to a year of growth and progress in 1996.



Brian Levitt
President and Chief Executive Officer

January 31, 1996



Ballet in the park... jazz in the streets... big bands in city squares... music on the lakes... symphony under the stars... and festivals and theatre on barges, in tents, and on stages from Newfoundland to British Columbia: du Maurier Arts is committed to developing fresh and exciting entertainment performed by Canadian artists.

du Maurier and the arts

the first 25 years

The du Maurier Arts program was established in 1971 to support and nurture the arts in Canada. From a relatively modest start in which \$175,000 was granted to 17 Canadian organizations, the program has grown to become one of Canada's largest sources of private-sector arts funds. In 1995 the Board disbursed \$1.5 million to over 160 performing arts groups. du Maurier's reach has truly been nationwide. Stages across the country have showcased thousands of perfor-

In 1995 du Maurier continued its tradition of supporting the arts through a new series of live concerts celebrating the achievements of Canadian artists. Internationally renowned performers appeared alongside Canadian stars of the future in Vancouver, Winnipeg, Toronto, Québec City, Moncton, and Montréal. Tapes of these "du Maurier Concert Stage" performances were shown during 1995 on CTV (and on TQS in Québec). Viewers can catch further performances on CTV from April through July, 1996.

mances of music, theatre, dance, and literature, and regional tours in rural areas have brought the arts to audiences who would otherwise not have access to them.

du Maurier has also helped improve, renovate, and develop arts facilities across Canada. Prominent examples include the du Maurier Theatre Centre at Toronto's Harbourfront; du Maurier Ltd. Hall - Capitol Theatre, Moncton; du Maurier Ltd. Centre for the Arts, Hamilton; and Studio-théâtre du Maurier Ltée of Place des Arts and Théâtre du Maurier Ltée at Monument-National, Montréal.

Total contributions in direct cash grants to over 350 arts organizations, capital support for venues, and support to arts programs now exceed \$40 million. An excellent run!

du Maurier and jazz:

An enduring relationship

Every year, through a partnership between Canada's major international jazz festivals and du Maurier, a stellar line-up of Canadian and international artists appears on concert stages in various cities across the country, from Halifax to Vancouver. In Toronto, over 1,000 accomplished artists perform during the city's du Maurier Downtown Jazz Festival, and Montréal's summer Festival de Jazz is heralded as the largest cultural event in North America.

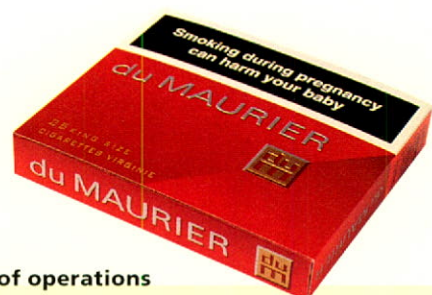


Internationally respected jazz pianist Oliver Jones was nurtured by the same music-loving Montréal neighbourhood that gave rise to his mentor, Oscar Peterson. Despite his self-professed semi-retirement, Jones' international concert schedule is booked through 1996.



The Montreal Symphony Orchestra with Maestro Charles Dutoit plays an important ambassadorial role in cultivating artistic exchange and goodwill through its recordings and international tours.

Imperial's mission is to compete successfully in any market it enters by satisfying adult smokers' needs better than its competitors – and to do this in a manner that is profitable and sustainable and that increases the value of the company.



Imperial Tobacco

Highlights of operations

Millions of dollars, except as noted	Years ended December 31				
	1995	1994	1993	1992	1991
Revenues	2,652	2,586	2,860	3,050	2,953
Revenues, net of tobacco taxes and duties	1,407	1,335	1,151	1,083	1,041
Earnings from operations	645	592	462	432	397
Market share – manufactured cigarettes (domestic and export) (%)	66.3	64.3	59.5	59.6	61.3
Additions to capital assets	49	31	28	36	22

In a declining market, Imperial Tobacco's total 1995 cigarette shipments were up 1.8% due to the strong popularity of our *du Maurier* and *Player's* brand families, both of which gained market share. The company's share of the cigarette market (domestic and export) rose by 2.0 share points to reach 66.3% at year-end. Factoring in roll-your-own products, our share of the total market was 62.6%, a gain of 1.3 share points. Productivity improvements, a price increase in April, and an improved product mix all helped maintain margins. The net result was a 9% increase in earnings from operations, another record performance for Imperial Tobacco.

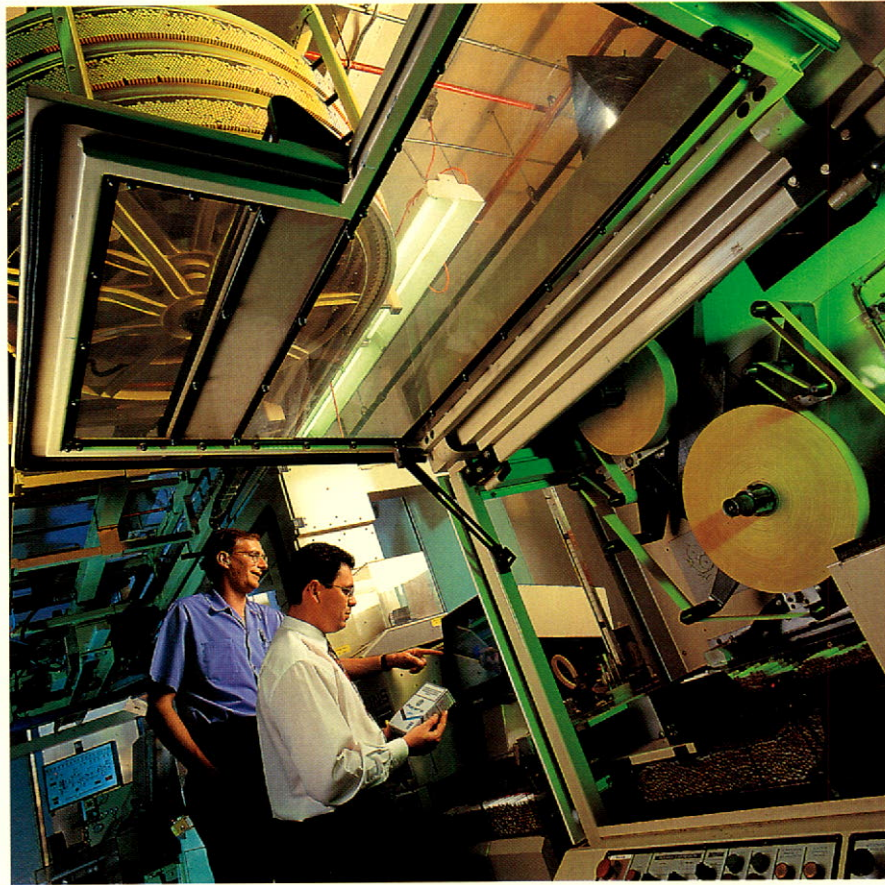
The regulatory environment

On September 21, the Supreme Court of Canada ruled on the constitutionality of the Tobacco Products Control Act, a law that banned all advertising and promotion of tobacco products in Canada and required unattributed health messages to be printed on packages. The Court concluded that several key provisions of the Act infringed the freedom of expression

guaranteed by the Canadian Charter of Rights and Freedoms. With some suggested limitations, the decision supported the right of tobacco manufacturers to communicate with customers as well as the right of Canadian smokers to receive such information through advertising and promotion.

Repercussions of the Supreme Court decision surfaced in December. Canada's Health Minister launched a consultation process regarding a variety of potential measures, perhaps going as far as another ban on tobacco advertising plus curtailment of industry sponsorship activities. For its part, the Canadian Tobacco Manufacturers' Council announced the Tobacco Industry Voluntary Packaging and Advertising Code. This self-imposed code is among the most restrictive in the world and is a balanced solution to the issue of tobacco advertising. Its restrictions took effect immediately and include prohibition of so-called lifestyle advertising and a requirement that, prior to acceptance by any media outlet, all advertising must be pre-cleared by an independent authority.

Jean Lefort (foreground) and Robert Gauthier put a new, high-speed cigarette maker through its paces in the Montréal plant. Imperial is investing \$118 million over a three-year period to streamline manufacturing operations and modernize machinery.



Managing to be competitive

Imperial Tobacco's success has always been based on knowing smokers' preferences and effectively meeting their needs. Today, as industry volumes in Canada steadily decline and tobacco companies compete for a share of the shrinking market, being a cost-effective producer is another market imperative. The following are selected highlights of ongoing dynamic changes designed to increase Imperial's productivity:

Corporate reorganization

In 1995, six operating divisions were reduced to five. At the heart of the restructuring is a major reorganization of work that will entail redeployment, multi-skilled jobs, and, ultimately, self-directed work teams. Our human resources group is providing major support for these changes, from role clarification to identifying core competencies and recommending appropriate training and development activities to be implemented over the next two years.

Business Process Improvement (BPI)

BPI is a process that taps employee initiative and know-how to create smoother links in work flow, particularly at points where two departments communicate. It began nearly four years ago in manufacturing, in full partnership with the union, and is now extending to other divisions. Changes recommended by employees are enhancing Imperial's competitiveness.

Integrated Information Systems

In January 1996, the company switched over to a totally integrated suite of information systems giving all employees access to the same, on-line information. Developing the new system entailed revisiting all business processes, an endeavour that became a key driver of process improvement and productivity. Resulting efficiencies will permit Imperial to adapt more rapidly to changes in the business environment.

Upgraded technology and facilities

\$118 million has been earmarked to streamline manufacturing operations and modernize machinery. Work began in July on a \$42 million facility in Aylmer, Ontario, that will consolidate primary processing of leaf tobacco, thereby improving product quality and lowering operating costs. Likewise, we have committed to higher-speed cigarette-making equipment in our Guelph and Montréal plants. In Montréal, new manufacturing, packing, and handling equipment installations are 80% complete.

Outlook

We are busy preparing for the future at Imperial. The business continues to be extremely successful in Canada, and we are seeking ways to develop our presence in new markets. Our human resources are stronger than ever, with employees fully involved in making Imperial's processes more efficient for the competitive tomorrows. We appreciate their dedication and we value their contributions. It is a privilege to lead such a committed organization.

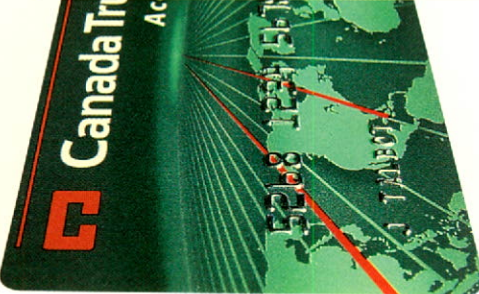
R. Donald Brown
Chairman, President and
Chief Executive Officer

CT Financial's mission is to be the best personal financial services company in the markets we serve.

Canada Trust First Federal

Highlights of operations

Millions of dollars, except as noted	Years ended December 31				
	1995	1994	1993	1992	1991
Revenues	4,456	3,754	3,703	3,999	4,320
Net investment income	1,174	1,115	1,050	1,049	957
Provision for investment losses	127	140	205	236	115
Earnings from operations (CT Financial Services' pre-tax earnings)	427	333	232	252	320
Net earnings attributed to common shareholders	241	196	145	181	210
Return on average common shareholders' equity – fully diluted (%)	11.8	10.2	7.9	10.2	12.8



It was a highly successful year for CT Financial Services and its operating companies, Canada Trust and First Federal Savings and Loan Association of Rochester. Net earnings attributed to common shareholders were up 23%, and we enjoyed excellent customer response to an expanded product and service offering. First Federal maintained its record of continually improving profits since its acquisition in 1991. Although economic circumstances were less than favourable, strong growth in deposits and consumer lending helped increase revenues by 19%. By increasing market share in these strategically important business areas and capping expense growth at 7%, we were able to exceed our objectives for earnings growth and return on equity in 1995. Our asset quality continues to be among the best in the financial services industry.

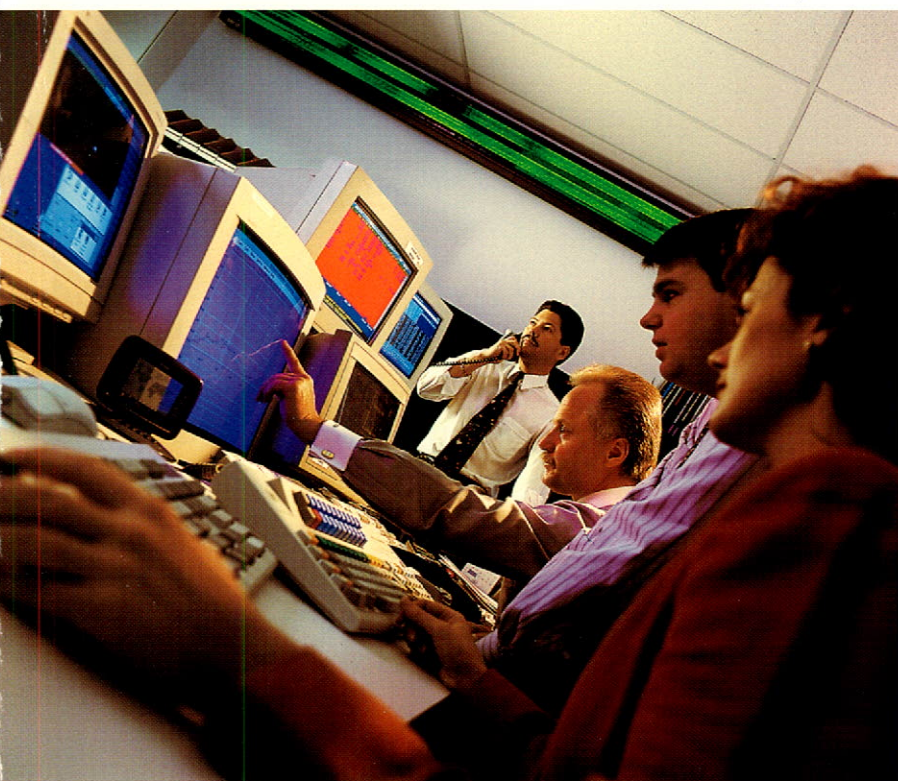
CT Financial's residential mortgage portfolio increased 7%, while consumer and collateral lending grew 21% in 1995.

In Canada, leadership in reducing prime lending rates at mid-year and concerted efforts by our new direct sales forces for mortgages and car loans were key success factors. In the United States, First Federal enjoyed the most successful year for mortgages in its 99-year history.

A drive to attract new deposits struck a chord with consumers, as market sentiment shifted to favour term investments over mutual funds. Deposits grew 5% to \$44.6 billion. The increased deposits, coupled with more modest lending growth, served to increase liquidity. As a result, spreads came under pressure. However, our treasury operations succeeded in preserving profitability through matching and hedging techniques.

Assets under administration, measured at book value, grew 8% to \$197 billion at year-end. Growth came principally from an increase in pension trust assets as well as First Federal's acquisition of the Sibley Mortgage Corporation of New York State. *Everest* mutual fund assets were virtually unchanged.

Peter Post, George Skinner, Darrin Raddatz, and Eileen Walsh (left to right), on the job at the *EasyLine Brokerage Service* trading desk in Toronto. The 24-hour telephone stock brokerage service was successfully launched in 1995.



Progress on long-term initiatives

Both Canada Trust and First Federal focused on meeting customer needs by broadening product and service offerings, particularly in the investment management area. Through emerging technologies, we increased the ways our customers can execute their financial transactions at times and places convenient to them. A continuing emphasis on re-engineering initiatives helped increase efficiency. Thus, despite increased investments in technology and new-service development, we succeeded in holding expenses within target levels.

Canada Trust now offers 24-hour telephone stock brokerage services, and a newly formed subsidiary, CT Private Investment Counsel, provides top-quality investment management. Paperless banking, in which customers' verbal instructions can effect transactions, was exten-

ded to over half our branches and will be system wide by the end of 1996.

For business owners, an integrated package of personal and business financial services was successfully piloted last year and launched in January 1996.

By creating alternative ways for customers to deal with us, we built on our well-established tradition of making banking easy. *EasyLine* telephone banking service doubled its volume in 1995 and now handles over one million calls per month. The automated banking machine (ABM) system added 44 machines and now numbers 904 locations across Canada, of which 112 are drive-thrus. We also inaugurated a series of web sites on the Internet, including a service that securely allows customers to review recent transactions. A personal computer banking pilot project is now under way. First Federal expanded its ABM system by 23 machines and developed and tested several new service delivery systems, including *FirstLine Direct* telephone banking service.

Outlook

The financial services industry is one of the most rapidly changing and competitive industries in North America. In this environment, CT Financial believes that the key to competitive success is focus. We are focused on making Canada Trust and First Federal the best personal financial services companies in the markets we serve. We are committed to making it easier for our customers to manage all their financial needs through us, by providing a full range of retail financial services delivered through traditional as well as innovative channels. At the same time, we are determined to maintain our reputation for the friendliest service in the industry.

Outstanding employees have been the foundation of CT Financial's success. As we have grown through the '90s, our people have consistently proved themselves adaptable and committed. We have set some tough but achievable goals for 1996. By "Thinking like a customer" we expect to meet those goals and to continue to improve upon our past performance.

W. Edmund Clark
President and Chief Executive Officer

Hardee's goal is to serve customers with a passion in a sparkling clean restaurant while demonstrating outstanding leadership and dedication to quality.



Hardee's

Highlights of operations

	Years ended December 31				
Millions of Canadian dollars, except as noted	1995	1994	1993	1992	1991
System sales	6,239	6,613	6,397	5,750	5,012
Revenues	2,517	2,609	2,625	2,365	2,097
Earnings from operations (millions of U.S. dollars)	20¹	97	74	71	49
Earnings from operations	27¹	133	96	87	56
Average sales per restaurant (thousands of U.S. dollars)	943	1,007	1,016	1,011	938
Additions to capital assets	162	94	83	90	61

¹ Before a special charge of \$325 million (US \$239 million) relating predominantly to Hardee's intention to sell its Roy Rogers restaurants. Refer to Note 18 on page 56.

Hardee's sales and earnings were disappointing in 1995. Sales fell 7.1% on a comparable restaurant basis, resulting in a dramatic earnings decline. All of us share a sense of urgency about improving Hardee's performance in 1996, and we are taking decisive steps to put our business on a stronger footing.

Upon joining Hardee's in September, my first priority was to complement the management team with several strong leaders. Among these, we were fortunate to attract as Chief Operating Officer Ray Perry, who led the transformation of California's El Pollo Loco to a healthy, growing chain. Dan Ginsberg, a principal in the ad agency that assisted Ray in that revitalization, joined us as head of marketing in December. Our senior leadership team is determined to make Hardee's a more focused company.

In the highly competitive fast-food market, a clear focus on building a strong brand identity among consumers is critical. Segmentation research has given us a far clearer vision of Hardee's brand destination. Building on our unique "made-from-scratch" image established at breakfast, Hardee's wants to be known as the chain providing the best-tasting food, freshly prepared, at competitive prices, at all three mealtimes.

Last September, several of our largest licensees teamed with senior management to determine which elements of our menu will help create the distinct brand identity that will position us for growth. Tests of alternative concepts to execute this positioning have now begun. Among the test concepts are char-grilled burgers and a co-branding concept that pairs other popular restaurants with Hardee's in selected markets.

While this work is under way we are taking a number of steps to improve service to our Hardee's customers.

Vanessa Ward greets a drive-thru customer in Rocky Mount, North Carolina. Hardee's is enhancing the speed and quality of its drive-thru service, which already accounts for about 50% of system sales.



Concentrating on the Hardee's brand

We determined that the Roy Rogers division does not fit our long-term strategy of building the Hardee's trademark. Agreements to sell most of the New York restaurants were signed in December and January, and we expect to complete the sale of the remaining restaurants in 1996. We have temporarily slowed growth of the Hardee's international division, and we expect the number of company and licensed restaurants in the United States to decrease by three to four percent in 1996. All these actions will leave us with a more profitable, better-positioned core.

Fixing the basics

Hardee's has fallen behind our competitors in consumer surveys of quality, service, and cleanliness. Accordingly, we have established clear, measurable goals to improve in these fundamental areas in 1996. A top priority will be to increase drive-thru speed. Hardee's drive-thrus represent about 50% of system sales.

To achieve operational excellence, Hardee's will strengthen its training programs and institute a performance measurement and feedback system to evaluate critical product and service attributes system wide. We are also instituting a disciplined marketing program and developing compelling advertising that will motivate consumers to visit Hardee's.

Actively managing the menu

While we get high marks from customers on menu variety, offering more than 100 items has complicated Hardee's operations and slowed service. In December we eliminated 20 menu items whose sales contributed less than 1% of profits. Menu management will be an ongoing priority.

Sales of burgers, sandwiches, french fries, and drinks represent more than half of Hardee's annual transactions and profits. To begin rebuilding our business in these core categories, in September we introduced the "Big Hardee" burger consisting of two, six-to-the-pound patties. So far consumer tracking scores are strong, and we are building on this momentum by adding "Big West" and "Big Frisco" burgers. We will continue exploring ways to get back to our roots in the burger business.

Hardee's also needs to compete more effectively in the value-priced segment. We recently created a 99-cent, all-day value menu. This menu could represent up to 10% of lunch and dinner sales and be the platform for profitable, limited-time-only burger and sandwich products.

Outlook

We will celebrate Hardee's 35th anniversary in 1996. It will be a watershed year for this brand, as we make the changes necessary to excel in industry fundamentals and win customers. Management is committed to these goals, as are the real heroes in this business – the hard-working individuals who run our restaurants. We are confident that, working as a team, we can put this brand back on a solid growth track.

H. Stephen McManus

H. Stephen McManus
President and Chief Executive Officer

Shoppers' positioning statement, *Everything you want in a drugstore*, rests upon five fundamental customer benefits: service, selection, savings, convenience, and trust.

Shoppers Drug Mart Pharmaprix



Highlights of operations

	Years ended December 31				
Millions of dollars, except as noted	1995	1994	1993	1992	1991
System sales	3,299	3,230	3,181	3,089	2,934
Revenues	192	193	181	172	162
Earnings from operations	96	102	100	95	89
Average sales per square foot (dollars)	786	798	801	806	786
Number of stores	717	689	690	678	671
Additions to capital assets	124	54	50	41	31

The retail environment remains highly combative, with giant food-drug combos and aggressive mass-volume retailers providing pressure. Amid this competition, Shoppers successfully contained margin erosion in 1995. We also absorbed development costs associated with Vision 97, a major initiative whose full benefits will not be realized until 1997 and beyond. All things considered, the year's results were quite satisfactory.

System sales were up 2%, while sales in comparable stores increased 0.5%. Excluding tobacco, 1995 sales advanced 6% system wide and 4.8% on a comparable store basis. The sales growth was led by exceptionally strong performance in our key professional categories of prescriptions and over-the-counter (OTC) medications. Earnings from operations declined 7% to \$96 million. This result exceeded our expectations, given that a new Ontario law banning tobacco sales in pharmacies (effective in January 1995) carved an estimated \$100 million out

of sales. Our Ontario associates successfully filled the tobacco sales gap through creative merchandising programs that included a greater food mix and more emphasis on seasonal goods.

Implementing Vision 97

Launched in the third quarter of 1994, Vision 97 is on schedule for full completion by the end of 1996. The \$250 million program will improve our system's productivity and make us a lower-cost provider through centralized purchasing, distribution, and accounting. Distribution will be carried out through three regional centres (DCs) handling approximately 70% of our store merchandise.

The Moncton DC began rolling out product to pilot stores in Atlantic Canada last fall, and the Toronto and Calgary DCs will come on stream in 1996. The backbone of Vision 97 is point-of-sale scanning and perpetual inventory systems in stores, and their installation was completed last fall. Satellite links will transmit data from store to warehouse by mid-1996.

Adding value to pharmacy

Pharmacy and OTC products are the mainstay of our business, and in 1995 we filled over 34 million prescriptions. The *Health-Watch Reminder* program has been well received by our customers. It offers the protection of computerized records detailing each patient's medication profile, plus a printed reminder with every new prescription giving clear instructions and cautions.

Today's medical landscape is changing dramatically, with governments enacting health-care reforms and third-party payers scaling back coverage. Against this changing backdrop, Shoppers has a real opportunity to exercise its leadership. Pharmacists are highly skilled professionals and a tremendous resource for the health-care team. In 1995 Shoppers expanded our pharmacists' advisory role by inaugurating a counselling program aimed at patients with chronic diseases. The first disease targeted was diabetes, and a system-wide training program

enhanced our capacity to help diabetic patients monitor and achieve better control of their blood sugar levels. Private counselling is the fastest growing service area in pharmacy, and Shoppers' health-care advisory function will soon expand to include other diseases such as cardiovascular disease, asthma, and arthritis. This amplified role will be stepped up as Vision 97's streamlining measures free our pharmacists to spend more time with customers.

System growth

Industry changes are accelerating the pace of consolidation in drugstore retailing. In 1995, Shoppers increased its store count from 689 to 717, with the lion's share of growth coming from acquisitions. During the year we acquired 14 stores from independent pharmacists, some of whom became associates. We completed the purchase of 24 Bi-Rite drugstores in Saskatchewan on June 30, and in September we began negotiating the acquisition of 135 Big V pharmacies in Ontario. We expect to close this transaction during the first quarter of 1996. The highly attractive Big V chain will solidify Shoppers'

position in the Ontario market and allow us to build synergies around the strongest aspects of both systems.

Outlook

These are exciting days in the drugstore industry. Brisk competition plus a changing health-care scene have challenged us as never before, but have also brought out our strengths. In 1996 we will complete the implementation of Vision 97, and Shoppers' earnings are expected to grow as the program's benefits begin to be realized in 1997 and 1998. The 26,000 employees in the Shoppers Drug Mart/Pharmaprix family coast to coast deserve our sincere thanks. It is their dedication and reputation for delivering superior customer satisfaction that account for our millions of loyal customers.



David R. Bloom
Chairman and Chief Executive Officer



Private counselling is the fastest growing service area in pharmacy. Jennifer Van Alstyne, a Shoppers associate in East York, Ontario, reviews a *Health Watch Reminder* with customer Audrey Moore.

Genstar's mission is to be the leader in the residential land development industry, whether measured on fairness, integrity, professionalism, or financial achievement.



Genstar

Highlights of operations

Millions of dollars, except as noted

	1995	1994	1993	1992	1991
Revenues	69	85	101	98	68
Earnings from operations	21	27	33	34	30
Number of single family lots sold	1,073	1,271	1,705	1,553	1,173
Land inventory (acres) ¹	20,806	21,622	21,160	20,406	19,035
Land inventory acquired (acres) ¹	351	1,056	1,090	1,811	587

¹ Includes land held through joint ventures.

The operations of Genstar Development Company are shifting to a balance between Canadian and U.S. projects, but in 1995 earnings were still concentrated in our Canadian regions. A combination of rising interest rates, high unemployment, and weak consumer confidence caused Canadian housing starts to dip to their lowest level in 13 years. In some regions, the 1995 market was the poorest since World War II. Genstar's business is heavily dependent upon residential home buyers, and our opportunities declined accordingly. Despite this discouraging picture, the company posted earnings from operations of \$21 million. We achieved this through a combination of land parcel sales, increased market share in more vibrant regions, and tight expense controls.

Our strongest Canadian markets were Vancouver, Calgary, and southwestern Ontario, regions in which Genstar has deep roots and a broad portfolio of projects. One exciting project designed to

attract first-time and move-up buyers is a mix of 964 detached, semi-detached, and townhouse units on 215 acres in Waterloo, Ontario. Part of Canada's "Technology Triangle," the area is one of the most prosperous regional economies in North America.

Genstar's U.S. operations are growing steadily, and they have begun to contribute to earnings. Two promising projects are in progress in the Pacific Northwest. In a suburb of Portland, Oregon, we successfully reworked a competitor's failed proposal from the 1980s. By eliminating an 18-hole golf course and developing a more modest mix of single family units, apartment units, and townhouses, we nearly tripled the number of housing units and created a project that is in tune with market demand.

Spokane, Washington, is another growth market, partly due to migration from California. In 1994 we acquired 542 acres in a master-planned project less than ten minutes from the downtown core. The land is extremely attractive, with views, slopes, and a heavy cover of

fir trees. Spokane developers were too small to take on a project of this size, which is exactly Genstar's niche.

Genstar has an established track record of weathering difficult years such as 1995 through its well-rounded portfolio of assets and a strategy of using market lows to position the company for the future. Next year's prospects seem brighter, as we anticipate increased housing starts in Canada and further contributions from our U.S. ventures.

FL Thomas

Frank L. Thomas
President and Chief Executive Officer

Pleasing Customers = Shareholder Value

Being consumer driven is a success factor common to all the Imasco companies.

It was the usual busy week for Leanne Turner. The medical technologist spent long days transcribing radiology reports at Montréal's Queen Elizabeth Hospital and by night fashioned handmade wreaths for her small but growing crafts business. On Friday it began snowing heavily. By Saturday morning Leanne was snowbound, but looking forward to relaxing at home and pulling together the loose ends. First order of business was a leisurely breakfast with husband David, and after that, squaring away the monthly bills. Post-pancakes she settled down at the coffee table, conscious of the MasterCard deadline looming on Monday. Five minutes later that credit card plus six other bills had been taken care of, and Leanne had transferred money to her RSP – all transactions accomplished wearing slippers, via Canada Trust's *EasyLine* telephone banking.

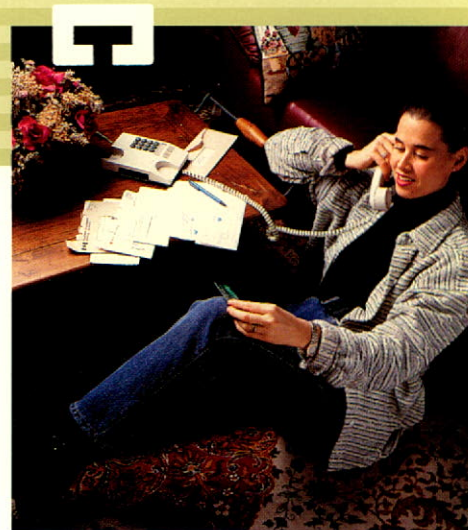
Leanne Turner is typical of the busy, "up-and-coming" consumer that Canada Trust is attracting these days. All her banking and investments, from savings and checking accounts to a car loan and self-directed RSP, are conducted under Canada Trust's roof. Until two years ago she banked elsewhere, but when a friend raved about CT's convenient services, Leanne made the switch and has never looked back. The company's *EasyTransfer* service made all the phone calls neces-

sary to effect the move. Leanne is a devoted fan of *EasyLine*'s 24-hour service: "I tend to procrastinate, and I really appreciate the tremendous convenience of being able to pick up the phone before I go to sleep at night or on a weekend morning, to take care of things and get them off my conscience!"

Canada Trust has achieved strong growth in recent years by targeting consumers like Leanne and crafting products and services that appeal. Explains Chief Operating Officer John Schucht: "We have honed our focus strictly on the individual customer. Meeting consumers' financial needs is what drives us."

* * *

Being consumer driven is a success factor common to all the Imasco companies. Each views the world through the prism of a separate industry, with distinct marketplace challenges and opportunities.



Client Leanne Turner: "At home" with Canada Trust's *EasyLine* telephone banking.

Imperial's Anne Boswall shows off *du Maurier*'s new look: "Any brand looks its age after a while."



"There's a naturally occurring dynamic in the marketplace of brand switching by smokers. We want to be there to intercept that."

But every Imasco company depends for its livelihood on consumer acceptance. From this shared need springs a consolidated business approach built around three cardinal tenets:

- knowing one's customers,
- being accessible and responsive to them, and
- developing customer relationships based on trust.

Knowing customers

When it comes to knowing the consumer, Imperial Tobacco's research capability is legendary. For over 25 years the company has tracked incidence levels and smoking trends through sophisticated market assessment tools, including a monthly national telephone survey of 2,000 consumers. Questions are tailored to fit different market segments, and the accumulated data form a historic data base of smoker demographics. Customer profiles, brand-use characteristics, and any unmet needs are all meticulously tracked. As Market Research and Development Director Andrew Chan observes: "There's a naturally occurring dynamic in the marketplace of brand switching by smokers. We want to be there to intercept that."

Since the 1970s, survey data have prompted Imperial to introduce several new brands and to modify some existing brands. Says Chan: "Whenever a change is made, it is based upon solid data. And something is working! The average failure rate of new brands is 80%, whereas Imperial's success rate is 80%."

In recent years, the company has become adept at repositioning its brands to respond to market intelligence. A case in point is the spectacular growth of the *du Maurier* trademark. A decade ago the brand's market share was holding steady at 18%. Careful management has grown that share, and today the *du Maurier* family commands an impressive 30% of the cigarette market. Beyond the trademark's "classic appeal" to a broad spectrum of smokers, Director of Strategy and Development Anne Boswall attributes the growth to appropriate brand extensions: "When consumers were looking for everything that *du Maurier* offers plus something else, the company introduced *du Maurier Extra Light* and *Ultra Light*." This year *du Maurier*'s packaging got a new look, its first since 1988. Notes Boswall, "Any brand looks its age after a while."

Whether designing an 84-millimetre cigarette or developing a 500-square-metre building lot, the same principle

applies: know your customers and deliver a product they value. Thus, when Genstar Development Company's San Diego office needed to enhance its capacity in market analysis, they naturally looked to Imperial Tobacco. Within the Imasco group of companies, Imperial is elder statesman, freely sharing its expertise in gathering and interpreting data to help sister companies segment their markets.

Genstar really has two customers for each sale. Although home builders buy the lots, the ultimate sale is to the home buyer. Thus, the company must be attuned to consumer needs and wants, and skilful use of consumer research has become a competitive advantage. President Frank Thomas explains: "When development companies have good years in geographical areas, many tend to develop their own agendas as opposed to focusing on the roots of the business – the consumer. Our company is doing a great deal of market research on what consumers want and are willing to pay for."

Ultimately, what creates value for consumers creates value for shareholders.

GENSTAR

CEO Frank Thomas: Finding out what consumers want and are willing to pay for.



To behold beautiful Lake Chaparral in Calgary is to witness Genstar's meticulous development approach at its finest. Lake communities have been successfully marketed for 20 years – indeed, Genstar has done four. But the fifth was not happenstance. Before developing the Calgary project, the company tested out six community-lifestyle alternatives to see which would bring the highest consumer acceptance. Competing with the lake theme were trail systems, parks and golf courses, family fun centres, gated security, and a children's water park. In Calgary, the lake concept won hands down. Says Thomas, "Rather than just repeat a formula, we re-confirmed consumer values."

Another Imasco company that has called upon Imperial's market research capabilities is North Carolina-based Hardee's Food Systems. The fast-food industry in the United States is mature, and to succeed, companies must zero in on particular market segments and consistently deliver the qualities, products,

Ultimately, what creates value for consumers creates value for shareholders.

and services they value. After disappointing results last year, this is exactly the course Hardee's is pursuing under new management.

Steve McManus, a 25-year veteran of Hardee's franchise community, took over Hardee's leadership last fall. He and his team are using market data to guide decision making. So far they have streamlined offerings, firmed up the value menu, and begun rebuilding the chain's "burger credentials" with several new hamburger selections. Creative marketing approaches will tout Hardee's strengths, including the system's *Made-from-Scratch* biscuits. But, as McManus points out, "The best marketing program is a well-run restaurant."

Over and above the research, McManus relies on another way of knowing customers and assessing their satisfaction, one he is quite emphatic about: "You must be out there! This management team will be known for being out in the field where the action is. The best ideas come from the field."

Both Steve and Chief Operating Officer Ray Perry visit Hardee's restaurants every day. They believe that to improve

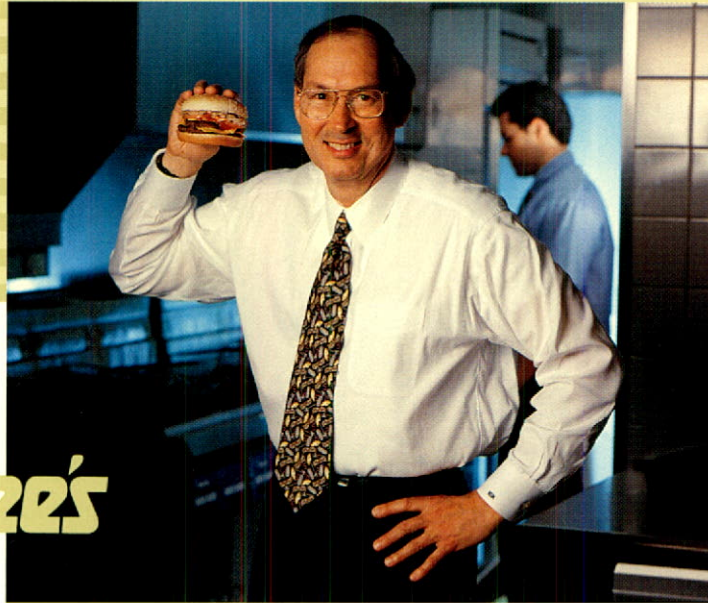
restaurant performance, immediate feedback is vital. The standards they have set are high: "Clean restaurants, hot food, and fast service are the price of admission in this business," McManus says.

For a chain in transition, the CEO's back-to-basics message rings true.

Being accessible and responsive to customers

The rough-and-tumble fast-food business is the perfect paradigm of today's consumer marketplace: a vast array of choices, with customers squarely in the driver's seat. Whether by offering consistently fresh, hot meals within a few minutes, or 24-hour telephone banking, or late-night pharmacy, unless a company meets customers' demand for service, it risks losing them.

“The best marketing program
is a well-run restaurant.”



Hardee's

CEO Steve McManus: Leading Hardee's back to its roots in the burger business.

At times, this level of dependability can be demanding for staffs to fulfil. But being there for consumers can win the coveted marketplace prize of customer loyalty. Shoppers Drug Mart CEO David Bloom strongly believes that accessibility is a differentiator that counts: “Convenience is a cornerstone of Shoppers’ success, one that’s not so easy for giant combo stores to deliver.”

Many a patient has appreciated the sight of Shoppers’ glowing “24-hours” sign late at night. At Marcel Fortier’s Pharmaprix on rue Sainte-Catherine in downtown Montréal, staff encounter a veritable *tranche de vie* in the wee hours. Fully 25% of the store’s sales occur between 10:00 p.m. and 7:00 a.m. The night shift can be rough in this bustling district near Latin Quarter theatres and clubs – and colourful, with neon-sprayed hair abounding. But the work has significant rewards. Says Fortier: “People stream in from several neighbouring hospital emergency rooms to fill prescriptions. Even nurses who get off at midnight come in to shop.”

Some requests are urgent: “Asthma ventilator pumps can stop working at the most inconvenient times, and people need a new one right away.”

In a big city at night the dangers can be great, and certain safety procedures are necessary. A security guard screens customers at the Pharmaprix door. Pharmacists do not fill narcotics prescriptions after midnight, insisting on talking to doctors first (when in doubt, they give just one pill). But the system is not fool-proof, and robberies have occurred. Are the risks worth it? “Decidedly,” says Fortier. “I know there’s a price, but I believe having an all-night pharmacy in a city is very important.”

Frequently, patients just want to talk. Montréal’s 911 unit gives out the phone numbers of all-night pharmacies, and many people need advice. Doctors are unavailable, emergency rooms are too busy – only the pharmacist has time to listen. Says Fortier: “The phone is constantly ringing at night. People want and need counselling, and they trust their pharmacist.”

Four thousand kilometres away, in Prince George, British Columbia, the local population numbers only 120,000. There

is perhaps less pink hair than in Montréal and, as yet, no woman has come to shop wearing “only nylons.” Otherwise, people and their needs are strikingly the same. Don Eisbrenner’s Shoppers Drug Mart is open till midnight, and as the witching hour approaches it’s the only game in town.

According to Eisbrenner, things are pretty lively from 11:00 p.m. to midnight. Many of the locals favour shopping at night, and the pharmacy serves clients from the walk-in clinic next door as well as from a nearby hospital. Even though the doors close at midnight, a pharmacy assistant is kept busy from 8:00 p.m. to 4:00 a.m. filling orders faxed from local nursing homes, typically written by night-shift nurses after midnight. And like Marcel Fortier and his staff, Don Eisbrenner and his pharmacists do a tremendous amount of telephone counselling. Says Eisbrenner: “I think people feel their ailments more at night, and the big, no-frills stores in town do not provide this service. It gives people comfort to know we are open.”



Montréal Pharmaprix associate Marcel Fortier: An all-night pharmacy is an essential big-city service.



“The phone is constantly ringing at night. People want and need counselling, and they trust their pharmacist.”

Cultivating relationships based on trust

A recent U.S. survey supports Marcel Fortier's belief that people trust their pharmacist. Respondents ranked pharmacists the number-one trusted professional, outstripping even clergy and doctors. Consumers rely on their pharmacist to be the family's "medicine doctor," someone with a global view of the medications each is taking, who will be on guard for complications caused by underlying allergies or conditions.

To deliver on this vital commitment, Shoppers' *HealthWatch Reminder* program computerizes the medication profile and other important information for each patient. When new prescriptions come in, dosage is automatically screened for age and body weight appropriateness, and any contra-indications or adverse drug interactions generate an error message onscreen. If HealthWatch indicates a severe drug interaction, the physician is immediately alerted.

Shoppers' associate Jennifer Van Alstyne has observed the power of HealthWatch in her career, most recently in her new East York, Ontario, store. She attests that potential medication errors

arise daily, for doctors may not be aware of all the drugs a patient is taking. For instance, Cumadin, a commonly prescribed blood thinner, is notorious for reacting with other medications. Even antibiotics can increase its blood-thinning capacity and cause life-threatening complications.

Using HealthWatch has increased Jennifer's comfort level. "Pharmacists have comprehensive drug knowledge and learn about drug interactions, but new medications come out all the time. It's reassuring to have the HealthWatch system as a back-up."

In the future, patients with chronic conditions such as diabetes, arthritis, and heart disease will gain a health care advisor they can have confidence in: their Shoppers Drug Mart pharmacist. Shoppers is capitalizing on the considerable expertise of its pharmacists by expanding their counselling role. The first step of the program is advising diabetic clients on how to monitor blood sugar levels to achieve better control. Other diseases will follow.

The prospect of adding value for health-care consumers excites Van Alstyne: "I can't wait to get out there and show people what we can do for them."

Just as health care is a highly personal matter, so is money care. And as surely as

with medical advice, success in giving financial advice depends on gaining clients' trust. Says Canada Trust's John Schucht: "We're no longer in the business of selling the individual product. We're in the business of developing relationships with our customers and being able to supply all their financial services, whether a mortgage, a checking account, or knowing what to do with their estate or the estate they inherit."

With customers increasingly choosing the convenience of machine, telephone, and PC banking, the role of branches is changing. Soon, branch visits will centre around getting advice for retirement planning or fine-tuning an investment strategy. To keep pace with this new thrust, Canada Trust's branches are being remodelled to accommodate private counselling offices, "the part of the branch where relationships will be built," according to Schucht.

Leanne Turner, the Montréal *EasyLine* veteran, is convinced that her Canada Trust service officer, Caroline Jannantuono, is tops: "Today, managing your money effectively is a top priority, and Caroline makes everything so simple. She's great!"

Caroline Jannantuono:
Delivering highly personal-
ized service to Canada
Trust clients like Frances
Schuster (left) is a daily
passion.



“We’re no longer in the business of selling the individual product. We’re in the business of developing relationships with our customers.”

Another satisfied customer of the branch, Frances Schuster, concurs. A math teacher at a private girls’ school, Frances likewise looks to Canada Trust for all her financial services and has started attending meetings of the new Financial Planning Group. She introduced her two sisters and a close friend to Canada Trust specifically because of the personalized approach: “I can’t say enough about this company. They go out of their way for you. Caroline takes the problems right out of your hands.”

Frances switched to Canada Trust five years ago, around the time her daughter was planning a trip to Israel to celebrate her 18th birthday. As departure time neared, Frances became anxious about health care. Caroline recommended Canada Trust’s gold MasterCard for the medical insurance it carries, including an 800 number. Because of the impending flight, Caroline expedited the process, and the Schusters received the card by courier within two days. Says Frances, “I was extremely grateful, for the medical plan gave me peace of mind. They would even fly me, as mother, over there to assist her in a medical emergency.”

Frances contends that at Canada Trust ordinary concerns are treated with respect, and extraordinary matters are made to seem ordinary. “If ever I have a question about a cheque, they will trace it – not sometime, but immediately – and call me back. When I moved, Hydro-Québec mistakenly charged me double. I hadn’t even realized it, but Caroline checked it out, fixed the situation, then notified me.”

Sitting behind her desk at Canada Trust’s Westmount branch, Caroline Jannantuono exudes a take-charge attitude. She considers problems “nothing but obstacles” and clearly relishes removing any obstacles that threaten full service for clients. “There’s a solution to everything in life, if you only have a little will! Basically, I don’t like saying no. It makes me happy to make my customers happy.”

Caroline spends fifty percent of her work time in the community. She makes school presentations on “Friends of the Environment,” touts Canada Trust’s financial services at offices large and small, and routinely goes to clients’ homes and offices to facilitate business. The latter could involve getting a signature for a new RSP or hand-delivering cheques, as she recently did for 96-year-old Mrs. Contra, who had run out and needed to pay her rent. For this effort, Caroline received a rose.

* * *

A company needs all the roses it can get in a marketplace rife with competition and change, and all five Imasco businesses are working hard to deserve them. Each company is rigorous about using market surveys and technology to help it serve customers better. Each tries to be as accessible as possible. And all work hard to cultivate and win their customers’ trust.

Ultimately, the only market yardstick that matters is the measure each consumer takes of a company’s performance. Their highly personal standards can be met by any of myriad deeds, large or small, that reassure them or make their lives easier or more pleasant.

Being on guard for the baby’s penicillin allergy... steering clients to a more lucrative RSP portfolio... serving piping hot biscuits and burgers in sparkling clean surroundings... developing lighter cigarettes to meet today’s preferences... adding lifestyle to a community by creating a lake: these are the stuff of customer bouquets.

A beaming Caroline Jannantuono sums up the Imasco spirit in seven proud words: “We’re geared to help our customers every-which-way!”

Imasco's mission is to build value for shareholders. The Board believes that a sound corporate governance system should support the accomplishment of this mission and not be an end in itself. Although process and structure are helpful, ultimately it is the quality of the people involved on the Board, on the management team, and throughout the organization, and the quality of their work that will have the greatest impact on the company's performance.

Imasco has a history of strong commitment to good corporate governance practices. Due to the evolving nature of corporate governance, our governance system continues to be refined and enhanced over time.

The Corporation also recognizes the importance of keeping its shareholders and other stakeholders well informed of its approach to governance and has been providing such information in its annual report since 1990. This year, the description of Imasco's corporate governance practices can be found in the 1996 management proxy circular. Due to recently introduced regulatory requirements, this disclosure is now made with reference to guidelines (which are not mandatory) contained in the final report of The Toronto Stock Exchange Committee on Corporate Governance in Canada. The Board of Directors believes that Imasco's approach to corporate governance conforms in all material respects to these guidelines.

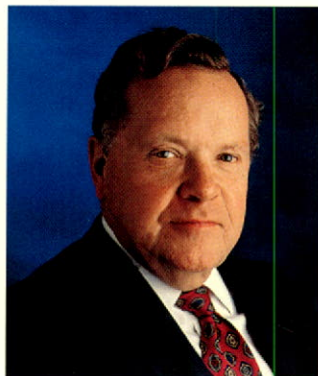
If you wish to receive a copy of our management proxy circular, please contact the Secretary of Imasco.

Audit Committee Chairman Charles Hantho (left) with members Bernard Roy and Robert Prichard.



Board of Directors

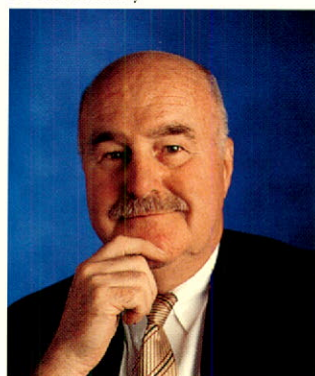
Purdy Crawford



Brian Levitt



Robert F. Autry



R. Donald Brown



Purdy Crawford

Toronto, Ontario. Director since 1973. Chairman, Imasco Limited, CT Financial Services Inc. Director, Avenor Inc., Camco Inc., Canadian National Railway Company, Dominion Textile Inc., Inco Limited, Maple Leaf Foods Inc., Petro-Canada, Trinova Corporation, Woolworth Corporation. Chancellor, Mount Allison University. Governor Emeritus, McGill University. Governor, Royal Victoria Hospital Corporation. Advisory Board, Oxford Frozen Foods Limited.

Brian Levitt

Montréal, Québec. Director since 1989. President and Chief Executive Officer, Imasco Limited. Director, CT Financial Services Inc., First Federal Savings and Loan Association of Rochester, Montcrest School, Westbury Canadian Life Insurance Company. Advisory Board, McGill University (Audit & Finance Committee), Wharton School. Trustee, Fraser Institute.

Robert F. Autry

Rocky Mount, North Carolina. Director since 1991. Chairman, Hardee's Food Systems, Inc. Director, Boy Scouts of America (East Carolina Council), Rocky Mount Boys Club, Rocky Mount Centura Bank.

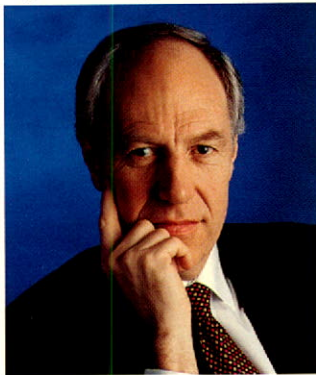
David R. Bloom

Thornhill, Ontario. Director since 1983. Chairman and Chief Executive Officer, Shoppers Drug Mart. Director, CT Financial Services Inc., Canadian Association of Chain Drug Stores, National Association of Chain Drug Stores, Mount Sinai Hospital, Retail Council of Canada. Advisory Council, Faculty of Administrative Studies, York University.

Nan-Bowles de Gaspé Beaubien

Westmount, Québec. Director since 1987. Vice-Chair, Gasbeau Inc. Director, Canadian Association of Family Enterprises, Terry Fox Humanitarian Award Committee. President, Institute for Family Enterprise.

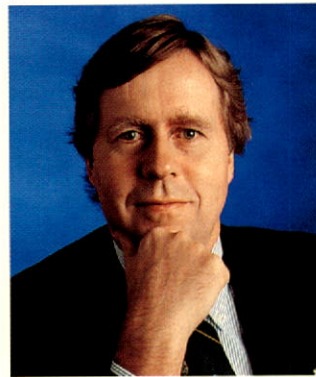
Raymond E. Guyatt



Russell E. Palmer



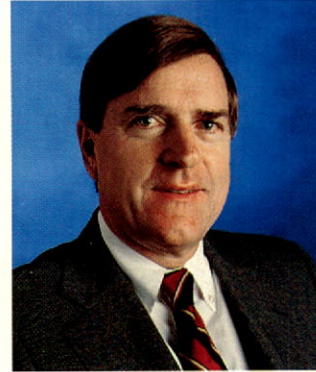
J. Robert S. Prichard



Charles H. Hantho



Angela C. Peters



Bernard A. Roy



Ronald D. Southern

Raymond E. Guyatt

Westmount, Québec. Director since 1990. Executive Vice-President and Chief Financial Officer, Imasco Limited. Director, CT Financial Services Inc.

Charles H. Hantho

Islington, Ontario. Director since 1993. Chairman, Dominion Textile Inc., Dofasco Inc. Director, AGRA Industries Limited, Inco Limited, Montréal YMCA Foundation, TransAlta Corporation. Member, Board of Governors, York University. Chairman, Minister's Advisory Council on Industrial Efficiency.

Russell E. Palmer

Bryn Mawr, Pennsylvania. Director since 1989. Chairman and Chief Executive Officer, The Palmer Group. Director, Allied-Signal Inc., Bankers Trust Company, Bankers Trust New York Corporation, Federal Home Loan Mortgage Corporation, GTE Corporation, Safeguard Scientifics, Inc., The May Department Stores Company. Trustee, University of Pennsylvania.

Angela C. Peters

Halifax, Nova Scotia. Director since 1987. Director, Xerox Canada Inc.

J. Robert S. Prichard, O.C.

Toronto, Ontario. Director since 1993. President, University of Toronto. Professor, Faculty of Law, University of Toronto. Director, Association of Universities and Colleges of Canada, Enghouse Systems, Japan Society, ONEX Corporation, Ontario International Trade Corporation, Tesma International, Toronto Economic Advisory Committee. Governor, University of Toronto, Upper Canada College. Trustee, Royal Ontario Museum, Toronto Hospital.

Bernard A. Roy, Q.C.

Nuns' Island, Verdun, Québec. Director since 1989. Senior Partner, Ogilvy Renault. Director, Fonds Ville-Marie, Foundation of the Board of Trade of Metropolitan Montréal, Institut de Design Montréal, Intrawest Corporation, Métro-Richelieu Inc., Montreal Symphony Orchestra, Trizec Corporation. Chairman of the Board of Governors, National Theatre School of Canada. Governor, The Portage Program for Drug Dependencies Inc., Royal Victoria Hospital Corporation, Université de Montréal. Trustee, McCord Museum of Canadian History.

Ronald D. Southern, C.M., CBE

Calgary, Alberta. Director since 1993. Chairman and Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited. Director, Akita Drilling Ltd., Canadian Airlines International Ltd., Canadian Pacific Limited, Chrysler Canada Ltd., Easton United Holdings Ltd., Fletcher Challenge Canada Limited, Fletcher Challenge Limited (New Zealand), Lafarge Corporation, Royal Insurance Company Limited, Xerox Canada Inc.

Imasco in the Community

Imasco and its companies are well-recognized for a strong tradition of generous giving to our communities – a tradition that goes back to our founding 25 years ago. The company has been a member of the *Imagine Caring Company* program since its inception in 1989, each year allocating for donations more than 1% of pre-tax earnings. Recognizing that our companies' successes are directly linked to community viability, Imasco believes the most constructive way to show appreciation is by supporting initiatives that strengthen these communities.

In 1995 combined contributions from Imasco and its companies to charitable organizations in Canada and the United States were \$9.5 million, distributed as follows:

Donations by Imasco companies:

Corporate	\$ 4,150,072
du Maurier Arts Ltd.	1,500,000
Canada Trust	3,000,000
Hardee's	815,051
Total	\$ 9,465,123

The corporate portion of the funds is allocated by a donations committee comprised of representatives from Imasco's corporate centre, Shoppers Drug Mart/Pharmaprix, and Imperial Tobacco. CT Financial Services has a separate donations committee; likewise, Hardee's distributes its own funds to projects in the United States.

Over 700 community initiatives were supported by Imasco in 1995. Donations ranged from contributions to 54 local chapters of United Way/Centraide (totalling \$647,000), to a donation covering the purchase of computers for the John Howard Society in St. John's, Newfoundland. One exciting initiative receiving our support is Generation 2000, a youth organization that sends teams of outstanding young people to high schools and conferences across Canada, where they speak to teens on issues such as AIDS and self-esteem.



1



2

In addition, Imasco contributes to political organizations that support the principles of democratic government and a strong private sector. Donations to federal and provincial parties, political foundations, and fund-raising events totalled \$146,450 in 1995. The company has never expected, sought, nor received any special consideration for its political contributions.

Imasco also makes periodic, large-scale donations to causes or projects that will have major impact or substantial, long-term benefits. Donations of this strategic nature include the following:

1,2,3 GO!, a Montréal-based initiative administered by Centraide that will mobilize community resources to help disadvantaged children under the age of four get the best start possible in life. Imasco has provided \$350,000 in seed money.

Terry Fox Centre in Ottawa, sponsor of "Encounters with Canada," seven-day seminars that bring together youth from every province to explore Canada's governmental, judicial, and cultural institutions. Each year, Imasco covers travel and costs of attendance for eligible children of employees.

Imasco Scholarship Fund for

Disabled Students, created in 1981 to help defray the extra costs incurred when disabled students attend university. The endowment's current value is \$270,000, which has generated 221 awards granted to 133 students.

A list of Imasco donations is published annually. Copies can be obtained by contacting the company.

* * *

On these pages we have chosen to highlight some of the year's stand-out initiatives supported or sponsored by Imasco and its companies.

Shoppers Drug Mart continued its ten-year commitment to stamp out juvenile diabetes, a disease suffered by 1.5 million Canadians. As a major corporate sponsor of the Juvenile Diabetes Foundation Canada (JDFC), Shoppers has raised over \$1 million for diabetes research.

In 1995 Shoppers was the major sponsor of the JDFC's "Walk for the Cure." Participating employees raised \$140,000 for the cause. (Its counterpart in Québec is the annual Cyclothon, which annually brings in significant additional dollars.) An innovative sticker promotion at Shoppers in September garnered a further \$155,000 for the JDFC. And in October the company designated "Life for

Canada Trust
Scholarships
for Outstanding
Community
Leadership

La Bourse
Canada Trust
pour l'excellence
en aide
communautaire



3



4



5

Kids" week and donated ten cents from the sale of every *Life Brand* product to the JDFC.

In the wake of April's terrorist bombing of the federal building in Oklahoma City, **Hardee's** employees worked tirelessly to help their neighbours and friends. In the first seven days following the bombing, the company provided nearly 7,000 free meals to rescue workers, police, military personnel, the FBI, Red Cross, medical examiners, funeral homes, and hospitals. And in a gesture of love and support, Hardee's joined with the Girl Scouts of Burlington, Iowa, in "Operation Teddy Bear," a drive to collect and deliver over 1,000 new teddy bears to victims and their families.

Canada Trust launched the Canada Trust Scholarships for Outstanding Community Leadership in 1995. The program recognizes exceptional young Canadians who have demonstrated extraordinary initiative and caring in service of their communities. The awards carry full tuition plus a \$3,500 stipend toward living expenses for up to four years of study at any accredited university or college in Canada. They also carry a perk that all young people can appreciate:

guaranteed summer employment at Canada Trust during the scholarship years. In all, 20 scholarships will be given yearly to students in every region of Canada.

Imperial Tobacco brought thrilling sports events to Canadians again in 1995. The return of Monica Seles to tournament tennis at the du Maurier Open meant high excitement and record crowds at the women's event in Toronto. Fans around the world watched as Monica captured the Singles Championship, displaying the talent that everyone remembered plus new maturity. It was one of the most publicized sports stories of the year.

For 35 years the Player's Ltd. Racing Team has brought the finest in motor-sport activities to Canadian fans. In 1995 young sensation Jacques Villeneuve won the Indianapolis 500 and captured top honours at the IndyCar World Series.

Finally, in 1995 du Maurier Arts marked 25 years of major support for the arts in Canada (see tribute on page 7). The Council annually gives on the order of \$1.5 million to sponsor innovative productions across the country.

1 Shoppers Drug Mart has raised over \$1 million to support diabetes research. Here, employees participate in the 1995 "Walk for the Cure."

2 Members of the Shining Trail Council of Girl Scouts of Burlington, Iowa, pose with a few of the thousand-plus teddy bears that Hardee's distributed to victims and families of April's Oklahoma City bombing.

3 Twenty Canada Trust scholarships each year will honour exceptional young people who have "made their mark" in caring for their communities.

4 Monica Seles, 1995 du Maurier Open Singles Champion, charmed the world with her dazzling talent and renewed vigour for the game.

5 In 1995 Jacques Villeneuve became the first Canadian and youngest competitor (at 24) to win the PPG IndyCar World Series Championship. He also carried off top prize for the Player's Ltd. Racing Team in the prestigious Indy 500.

By donating more than 1% of pre-tax earnings, Imasco qualifies as an Imagine Caring Company. The purpose of the Imagine campaign is to stimulate volunteerism as well as donations from individuals and the corporate sector.

A Caring Company



Management's Discussion and Analysis

The following comments provide an analysis of Imasco Limited's 1995 consolidated results of operations, financial condition, and cash flows in comparison with those of 1994 and should be read together with the consolidated financial statements of the Corporation. The discussion of results of operations focuses on each operating company and CT Financial Services and includes a review of the significant issues facing each business and the outlook for 1996.

Imasco's mission is to build value for shareholders. This goal is achieved by continuously enhancing the long-term competitiveness of operating companies while insisting on operational and financial excellence. Management believes that the resulting growth in earnings and cash flows will enable Imasco to provide superior returns to shareholders in the form of dividends and share price appreciation.

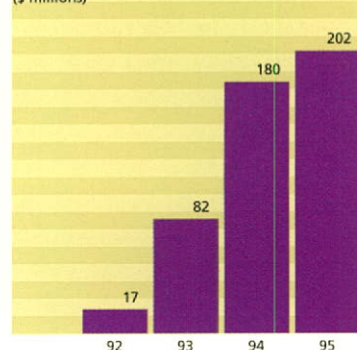
In keeping with its mission, the financial framework of Imasco has evolved to focus on maximizing shareholder value over the long term. Value-based principles are now at the core of Imasco's capital allocation, asset management, strategy evaluation, planning, and performance measurement processes. This approach is in line with the view that financial discipline, relevant performance measurement, controls, and accountability are essential to creating shareholder value. To build value over the long term, Imasco must earn a return on operating capital that exceeds its estimated 11.5% cost of capital (after-tax, weighted average).

Economic profit and economic value added (EVA) are measures that allow operating companies to evaluate their contributions to Imasco's overall mission and share-price performance. These concepts provide management with an effective framework for evaluating performance from a value-generating perspective by focusing on asset productivity. Economic profit is defined as net operating profit after tax and after deducting a notional amount for the cost of average operating capital employed. The calculation excludes certain non-recurring items to better reflect sustainable operating performance and potential. EVA is the growth in economic profit from year to year.

Imasco achieved economic profit of \$176 million in 1995, \$154 million in 1994, and \$56 million in 1993, while EVA was \$22 million in 1995, \$98 million in 1994, and \$65 million in 1993.

Cumulative economic value added

January 1, 1992 to December 31, 1995
(\$ millions)



Consolidated results of operations

The following comments summarize the consolidated results of Imasco's operating companies and CT Financial Services, which are discussed in greater detail below.

System sales increased 3% to \$16.7 billion in 1995 from \$16.3 billion in 1994. System sales is an unaudited amount used to measure the overall business volumes of the Imasco group of companies. It comprises the consolidated net revenues of Imasco as well as the sales of Hardee's restaurants and Shoppers Drug Mart/Pharmaprix stores operating under license or franchise agreements, and a significant amount of tobacco taxes and duties included in Imperial Tobacco's gross revenues. System sales were as follows:

	1995	1994	1993
	Millions of dollars		
Imperial Tobacco	2,652	2,586	2,860
CT Financial Services	4,456	3,754	3,703
Hardee's Food Systems	6,239	6,613	6,397
Shoppers Drug Mart	3,299	3,230	3,181
Genstar Development Company	69	85	101
	16,715	16,268	16,242

Consolidated net revenues by company are detailed in Note 33 on page 61. The overall increase in net revenues is attributable to increases at Imperial Tobacco and CT Financial Services of 5% and 19%, respectively. The revenues reported for CT Financial Services are on a gross investment income basis and are sensitive to variations in interest rates. A more meaningful measurement of CT Financial Services' revenues is net investment income, which reflects the deduction of financial services interest expense. On a net investment income basis, including fees and other income, revenues of CT Financial Services increased 10%.

Earnings from operations by company are detailed in Note 33 on page 61. Earnings from operations increased 9% at Imperial Tobacco and 28% at CT Financial Services. The increase at Imperial Tobacco reflects higher sales volume, improved gross margins due to a more favourable sales mix, a price increase, and productivity improvements. The increase at CT Financial Services was largely due to higher net investment income and fee-based revenue as well as operating expenses that did not rise as quickly as revenues. Earnings from operations declined significantly at Hardee's as a result of the poor sales performance and the slow response to reduce costs to reflect the lower level of sales. Results of operations at Shoppers Drug Mart suffered because of the continuing intense competition in the Canadian retail environment, the loss of tobacco sales in Ontario, and the start-up costs on the Vision 97 project. The decline in earnings from operations at Genstar Development reflects the weak Canadian residential real estate markets. Before a special charge of \$325 million (US \$239 million) recorded by Hardee's in the fourth quarter of 1995, consolidated earnings from operations increased by 2%. The special charge relates predominantly to a write-down of Roy Rogers assets, but also includes provisions for the closure of a manufacturing facility, a 10% reduction in workforce at Hardee's and FFM's head offices, and the divestiture of certain underperforming Hardee's restaurants. Refer to page 38 and Note 18 on page 56 for additional details.

Other costs and administration expenses declined in 1995 as a result of lower corporate expenses and certain non-recurring cash receipts.

The reduction in interest expense of \$21 million in 1995 is primarily attributable to a \$14 million premium recorded in 1994 for the retirement of high coupon debt by Hardee's (refer to Note 27 on page 58). In addition, interest expense also decreased due to lower total average debt. Interest expense on fixed-rate debt was reduced in 1995 due to lower average fixed-rate debt levels, while interest expense on variable-rate debt was higher in 1995 due to increased average variable-rate debt and higher interest rates. The average interest rate on total debt was 8.5% in 1995, compared with 8.3% in 1994, as the average interest rate on variable-rate debt increased to 6.8% in 1995 from 5.3% in 1994. At December 31, 1995, 26% of the company's long-term debt was of a variable-rate nature and exposed to future movements in interest rates. This ratio was 32% at December 31, 1994. Changes in the composition of long-term debt during 1995 are discussed on page 41. Interest coverage, the ratio of earnings before interest and taxes to interest expense, was 4.8 in 1995 and excluding the special charge would have been 6.9. Coverage in 1994 was 5.9.

Imasco's overall effective income tax rate was 50.1% in 1995. The special charge has been recorded without the benefit of a tax recovery, as it is not virtually certain that the future tax benefits will be realized. As a result, the effective income tax rate is unusually high. Imasco's normalized effective tax rate, excluding the special charge, was 33.0% in 1995, compared with 33.5% in 1994. Note 20 on page 57 outlines the principal factors that caused the reduction in the normalized effective income tax rate in 1995.

Together with the tobacco tax rollbacks and other measures aimed at eliminating the contraband tobacco market, in February 1994 the federal and Québec governments imposed surtaxes on the profits of tobacco manufacturers to be in effect for a three-year period ending February 1997. During 1995, Imperial Tobacco provided \$47 million for these surtaxes, compared with \$39 million for the eleven-month period in 1994.

In September 1995, Imasco completed the sale of The UCS Group (refer to Note 22 on page 57). In accordance with Canadian accounting requirements, the after-tax operating results of The UCS Group are reported separately as discontinued operations, and prior-year amounts have been restated. The net assets of The UCS Group were disposed of at approximately book value, and the company reported break-even operating results in 1995, prior to disposition.

Net earnings attributed to common shares, upon which the calculation of earnings per common share is based, represent the residual of net earnings after dividends on preference shares have been paid. Dividends on preference shares were reduced in 1995 due to the repurchase and redemption of preference shares discussed on page 43. The weighted average number of common shares outstanding amounted to 233,538,739 during 1995, compared with 236,871,978 during 1994. Changes in common shares outstanding are itemized in Note 16 on page 55. Earnings per common share were \$0.91 in 1995 and excluding the special charge would have been \$2.30. This compares with \$2.09 reported in 1994. The return on average common shareholders' equity was 6.7% in 1995 and excluding the special charge would have been 16.1%, the same as in 1994.

Imperial Tobacco

Revenues, net of tobacco taxes and duties, increased 5% in 1995 to \$1.4 billion. Total unit shipments of cigarettes and roll-your-own products by Imperial Tobacco increased 0.7% during 1995, which contributed to the higher revenues. The improvement also reflects a cigarette price increase to wholesalers of 4.1% effective April 1995, the first increase by Imperial Tobacco since July 1993.

Industry shipments of cigarettes and roll-your-own products are estimated to be 52.6 billion cigarettes and approximate equivalents in 1995. It was the first full year of business activity since the significant rollbacks of tobacco taxes by the federal and certain provincial governments that took place from February through May 1994. The tax rollbacks are believed to have substantially eliminated the international smuggling of tobacco products into Eastern Canada and returned sales principally to the domestic, duty-paid market for manufactured products from the export and duty-free segments. This trend is illustrated in the following table of estimates for the Canadian industry's total shipments.

	1995	1994	1993
Domestic:	Billions of cigarettes and approximate equivalents		
Cigarettes	45.6	45.7	30.2
Roll-your-own	5.2	5.1	5.0
Export and duty-free:			
Cigarettes	1.4	1.9	14.4
Roll-your-own	0.4	0.6	2.8
Total ¹	52.6	53.3	52.4

¹ Based upon Statistics Canada figures (adjusted to exclude non-Canadian brands manufactured by a competitor for foreign consumption) and Imperial Tobacco estimates. Amounts reported exclude (primarily in 1993) foreign-manufactured products available in Canada and consumer purchases of raw leaf tobacco.

The preceding table does not provide a measure of consumer prevalence or of consumption levels. Shipments shown are sales to wholesalers and can vary according to production and inventory levels and other marketplace dynamics. In addition, the table does not consider that some foreign-manufactured products enter Canada illegally and, prior to the tobacco tax rollbacks, consumers were purchasing raw leaf tobacco to make their own cigarettes. Imperial Tobacco believes the decline in 1995 industry volume is overstated as the 1994 increase included an inventory build-up following the tax rollbacks. Imperial Tobacco projects a relatively low rate of decline in consumption levels in 1996.

Imperial Tobacco's market share has historically been strongest in the domestic manufactured cigarette segment. Consequently, Imperial Tobacco benefitted from the return of sales

volume to this segment following the tobacco tax rollbacks, particularly in 1994. Imperial Tobacco's shipments and estimated share of market were as follows:

	1995	1994	1993
Billions of cigarettes and approximate equivalents			
Domestic:			
Cigarettes	30.6	29.8	20.3
Roll-your-own	1.6	2.0	2.0
Export and duty-free:			
Cigarettes	0.6	0.8	6.2
Roll-your-own	0.1	0.1	0.4
Total	32.9	32.7	28.9
Market share (%) ¹	62.6	61.3	55.2

¹ Based upon Statistics Canada figures (adjusted to exclude non-Canadian brands manufactured by a competitor for foreign consumption) and Imperial Tobacco estimates. Amounts reported exclude (primarily in 1993) foreign-manufactured products available in Canada and consumer purchases of raw leaf tobacco.

In 1995, Imperial Tobacco continued to gain volume and market share from its domestic competitors and other non-domestic manufacturers. This can be attributed to four main factors: the strengths of its three major Canadian trademarks, *du Maurier*, *Player's*, and *Matinée*; product quality; market and consumer research; and the effectiveness of its sales force in the domestic market.

Earnings from operations increased 9% in 1995 to \$645 million. This represented 45.8% of net revenues, compared with 44.4% in 1994. The increase in earnings from operations is due to higher sales volumes, improved gross margins attributable to a more favourable sales mix, the price increase, and productivity improvements. In conjunction with the tobacco tax rollbacks, the federal and Québec governments in 1994 imposed a three-year surtax on profits of tobacco manufacturers ending in February 1997. Part of the proceeds, in the case of the federal government, is being used to fund its Tobacco Demand Reduction Strategy. In 1995, the provision for tobacco surtaxes amounted to \$47 million, compared with \$39 million in 1994 when it was in effect for an eleven-month period.

The major challenge for Imperial Tobacco continues to be increasing its sales volume despite the long-term slow decline in consumption of tobacco products in Canada. This decline is principally due to demographics, consumers' health concerns, and changing attitudes toward smoking. Allowing for variations from year to year, this long-term trend is expected to persist. In addition, government taxation and regulation of tobacco products continue to be major issues faced by all Canadian tobacco manufacturers.

On February 17, 1995, the federal government announced a \$0.60 federal excise tax increase per carton of cigarettes intended for retail sale in Ontario and Québec. On the same date, the governments of Ontario and Québec announced an identical increase of \$0.60 per carton in their respective tobacco taxes. Ontario did not proceed with the formal legislative approval required to implement the increase, whereas Québec did. Québec went on to increase its cigarette tax by an additional \$0.72 per carton in its May 10, 1995 budget.

On September 21, 1995, the Supreme Court of Canada rendered its judgment regarding the challenge by Imperial Tobacco and RJR-Macdonald Inc. of the validity of the Tobacco Products Control Act (TPCA). In a majority decision (five to four), the Court struck down five sections of the TPCA on the basis that these sections infringed the right to freedom of expression as set out in the Canadian Charter of Rights and Freedoms. The sections contained a ban on the Canadian advertising of tobacco products, limitations on in-store advertising, rules governing sponsorships by tobacco manufacturers, restrictions against the use of tobacco-related trademarks on non-tobacco products, and a prohibition against extraneous information on packages containing tobacco products.

On December 11, 1995, Canada's Health Minister issued a consultation document setting forth the Health Department's objectives for replacement of the TPCA. Some of the principal elements proposed include the following: a complete ban on advertising, restrictions on promotional and sponsorship activities, measures to reduce access to tobacco products by minors, restrictions on point-of-sale activities, imposition of packaging and labelling requirements including health messages and limitations on the minimum package size, and governmental powers to eventually regulate tobacco product constituents and smoke emissions. The document will be the subject of consultations with provincial governments, the health community, tobacco manufacturers, and other interested parties early in 1996. The Health Minister indicated her expectation that the government would introduce legislation in the spring of 1996. On January 25, 1996, a new Health Minister was appointed. There is no indication of what impact, if any, this development will have on the outcome of the process.

On December 19, 1995, Canada's three major cigarette manufacturers, through the Canadian Tobacco Manufacturers' Council (CTMC), announced the Tobacco Industry Voluntary Packaging and Advertising Code (the Code) to be effective immediately. The Code is intended to regulate the marketing practices of the CTMC's members and follows the ruling of the Supreme Court of Canada. Under the Code, all brand and sponsorship advertising must be submitted to an independent body for pre-clearance. Tobacco advertising will be aimed only at increasing or maintaining market share and must be directed only to adult smokers. Advertising of tobacco products on radio or television, as well as any brand advertising showing people, is prohibited. With respect to sponsorship and related activities, the Code permits the use of tobacco trademarks for the principal purpose of promoting the activity or event, but prohibits the use of packages, products, or examples of a product. The Code also restricts the use of tobacco trademarks on non-tobacco items. Furthermore, the Code requires health messages attributed to Health Canada to be printed on the principal display panels of all tobacco product packages. Product advertising will also carry a government health message.

In April 1994, the federal government mandated the Standing Committee on Health to examine the effectiveness and legal ramifications of using plain packaging of tobacco products to reduce both consumption and smuggling. In November 1994, Canada's Minister of Health deferred proceeding with legislation pending both further study of the issue and the ruling of the Supreme Court of Canada on the validity of the TPCA. The

expert panel commissioned by Health Canada released its report on plain packaging in May 1995. In light of the ruling of the Supreme Court of Canada, Imperial Tobacco believes that plain packaging would violate the Canadian Charter of Rights and Freedoms.

Other restrictive measures have also been imposed at provincial and municipal levels. They include the prohibition of the sale of tobacco products in Ontario drugstores and vending machines. The provincial governments of Nova Scotia, Québec, and British Columbia have proposed or implemented additional legislative initiatives concerning the sale, distribution, and consumption of tobacco products. Several municipalities, including Vancouver, Metro-Toronto, and Ottawa, have proposed or adopted further restrictive measures covering the promotion and consumption of tobacco products. Anti-tobacco lobby groups continue to pressure governments at all levels to adopt more stringent regulations against smoking.

On March 3, 1995, Imperial Tobacco was served with a Statement of Claim on behalf of four plaintiffs. The plaintiffs are seeking, among other things, to have the suit against Imperial Tobacco and the two other major Canadian tobacco companies certified as a class action and to be awarded damages for losses said to be consequential to their alleged addiction to tobacco. No date has been set for plaintiffs' motion to determine whether the case will be certified as a class action. (Refer to Note 32 on page 60 for further details on the lawsuit.) Imperial Tobacco will vigorously defend its position, and, although the lawsuit is at a very early stage and it is difficult to predict the outcome of lawsuits, the Corporation believes that Imperial Tobacco has a number of valid defenses.

The company has several major productivity initiatives under way that should continue to yield positive results in 1996. During 1995, Imperial Tobacco announced a major reorganization of its corporate structure intended to increase the effectiveness of the company's operations. A guiding principle is to focus resources on activities that are valued by the company's trade customers and by consumers. The in-depth reassessment of each of the company's activities is closely coupled with the implementation of company-wide integrated computerized information systems at the beginning of 1996. The full benefits of these programs are expected to be realized over the next two years. Concurrently, the company is investing substantial amounts in its manufacturing facilities to achieve higher productivity, better cost management, and greater flexibility in responding to customer needs. It has also developed a comprehensive, long-term tobacco leaf strategy consistent with its continuing objective to meet consumer demands better than the competition. A key

element of the strategy is to optimize the use of Canadian tobacco in order to maintain uniform and consistent taste qualities and improve cost effectiveness.

As part of a longer-term strategy, the company continues to explore international market opportunities. Since Imperial Tobacco does not own the rights to the *du Maurier* and *Player's* trademarks outside Canada, new brands will be developed. The primary focus will be in the United States, where Imperial Tobacco will continue test marketing a roll-your-own product in 1996.

Imperial Tobacco forecasts continued growth in net revenues and earnings from operations for 1996, assuming no significant negative government initiatives. The principal focus will be to generate profitable market share growth in both the manufactured cigarette and roll-your-own segments.

CT Financial Services

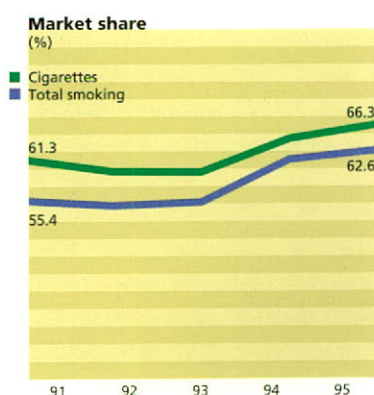
The principal business segments of CT Financial Services are financial intermediary services and fiduciary services. The majority of earnings is derived from financial intermediary services provided by Canada Trust in Canada and by First Federal in the United States. Revenues of CT Financial Services, as reported by Imasco Limited, were as follows:

	1995	1994	1993
	Millions of dollars		
Gross investment income	3,925	3,320	3,321
Fees	496	437	355
Other income	35	(3)	27
	4,456	3,754	3,703

Net earnings attributed to common shareholders for 1995 increased 23% over 1994. This improvement was largely due to higher fee revenue, which increased 14% over 1994, and a tightly controlled 7% increase in expenses, compared to a 10% increase in revenues net of interest expense. In 1995, net earnings of Canada Trust and First Federal amounted to \$201 million and \$66 million, respectively, compared with \$175 million and \$47 million in 1994. Fully diluted net earnings per common share increased 23% in 1995 to \$2.02 from \$1.64 in 1994. Return on fully diluted average common shareholders' equity was 11.8% for 1995, compared with 10.2% for 1994, while net earnings as a percentage of average assets was 0.53%, compared with 0.47% in 1994.

Net investment income, the difference between revenue earned on investments and interest expense on deposits and borrowings, rose 5% during 1995 to \$1.2 billion. Net investment income can be adjusted to a taxable equivalent basis to reflect the differing tax treatments accorded income derived from various types of investments. On a taxable equivalent basis, net investment income was \$1.3 billion in 1995, an increase of 4% from 1994.

Net interest rate differential or spread (the difference between investment income earned as a percentage of average investments and interest expense as a percentage of average interest-bearing liabilities adjusted to a taxable equivalent basis) was



2.27% for 1995, compared with 2.37% for 1994. The components of net investment income and the net interest rate differential in 1995 are detailed in the following table:

	Average balance	Income/expense	Average rate
Millions of dollars, except as noted			
Investments	49,029	4,005	8.17%
Deposits and borrowings	46,626	2,751	5.90%
		1,254	2.27%

The change in net investment income from 1994 caused by variations in volume and rate is detailed as follows:

	Volume	Rate	Net
Millions of dollars			
Investments	237	356	593
Deposits and borrowings	158	388	546
	79	(32)	47

At Canada Trust, spread decreased during 1995 due to competitive pricing pressures and balance sheet mix changes. Canada Trust's net interest rate differential was 2.24% for 1995, compared to 2.34% for 1994. Rising interest rates caused a shift in customer preference to long-term deposits in the first part of the year and an increase in interest expense. First Federal's net interest rate differential was 2.41% for 1995, compared with 2.53% for 1994, primarily due to lower rates earned on adjustable-rate mortgages.

Personal lending operations are funded primarily by retail customer deposits. In the first quarter of 1995, customers continued the trend commenced in 1994 of transferring mutual fund balances to term deposits as interest rates continued to rise. A gradually declining interest rate environment over the remainder of 1995 left term deposit balances largely unchanged. Term deposits at December 31, 1995 were 9% higher than one year earlier. Demand deposits increased 1% over last year. RSPs and RIFs grew by 13% in 1995, compared with 2% in 1994. At December 31, 1995, virtually all of Canada Trust's deposits were from Canadian

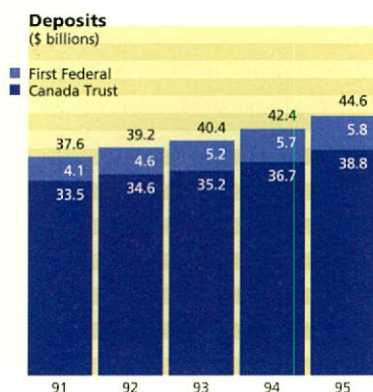
retail customers. The remainder included Canadian dollar Eurodebentures, domestically issued convertible debentures, term deposit receipts, Receiver General of Canada balances, and clearing balances. Canada Trust's deposits were \$38.8 billion at December 31, 1995 with an average cost of funds of 6.00%. A further issue of \$200 million subordinated capital debentures by subsidiary Canada Trustco Mortgage Company (Canada Trustco) in May 1995 brought the total of outstanding subordinated debt to \$500 million. Details of this issue are set out in Note 12 on page 53. At December 31, 1995, virtually all of First Federal's deposits were from U.S. retail customers. As well, First Federal borrows from the Federal Home Loan Bank (FHLB) at a cost of funds typically lower than treasury rates. Deposits of First Federal were \$5.8 billion at year-end with an average cost of funds of 4.15%. First Federal's average cost of total funds in 1995, including wholesale borrowings, was 4.78%.

Cash, short-term notes, and short-term government bonds are used to meet liquidity requirements. During 1995, cash and short-term notes decreased by \$372 million, and short-term government bonds increased by \$1.1 billion. Short-term government bonds represented 43% of securities at year-end. Securities (other than short-term government bonds) are substantially composed of high-quality shares, long-term government bonds, and mortgage-backed securities (MBS). Long-term securities are intended to be held to maturity. The average return on the securities portfolio for 1995 was 6.97%. First Federal holds a large portfolio of MBS that are backed by mortgages guaranteed by U.S. government agencies. These securities are highly liquid in the U.S. secondary market and are considered low risk. Investment in these securities was \$1.2 billion at December 31, 1995.

Residential mortgages represented 54% of total investments at December 31, 1995. Growth in residential mortgages slowed to 7% during 1995, compared with 10% in 1994. Higher interest rates in 1995 contributed to the lower demand for mortgages. Actual losses on residential mortgages as a percent of portfolio on average for the last five years was 0.11%, significantly lower than average losses on all other loan portfolios. The average return on residential mortgages during 1995 was 8.08%.

Consumer and collateral lending grew 21% during 1995. Secured lending rose \$1.0 billion, while unsecured lending increased \$300 million. This represents a shift in lending based on the introduction of improved centralized controls and the use of advanced credit scoring techniques during the year. Commercial mortgages declined 16% during 1995, as lending activities were refocused on the residential segment of the mortgage market and consumer and collateral lending. Strong origination activity during the second and third quarters enabled First Federal to add \$1.0 billion in adjustable-rate mortgages to its residential mortgage portfolio in 1995, increasing it to \$6.9 billion at year-end, up 15% from December 1994. Mortgage originations increased from \$2.8 billion in 1994 to \$2.9 billion in 1995. During 1995, \$598 million of fixed-rate mortgages were sold in the secondary market on a servicing-retained basis.

Real estate investment properties held by Truscan Realty Limited (Truscan) are intended as long-term investments. Net book value declined by \$60 million in 1995, and at December 31, 1995 represented 1.6% of the corporate assets of CT Financial Services, down from 1.8% at December 31, 1994. Total revenue from real estate investment properties was



\$122 million in 1995. The vacancy rate at year-end was 10.4%, up from 10.1% at year-end 1994.

The provision for investment losses is the amount charged to earnings to bring the allowance for investment losses to required levels. In 1995, the provision for investment losses was \$127 million, compared with \$140 million in 1994. The apportionment of the provision for investment losses among investment categories was as follows:

	1995	1994	1993
	Millions of dollars		
Loans			
Mortgages – residential	27	22	38
Mortgages – commercial	(7)	37	66
Corporate and commercial	74	65	12
Credit card receivables	17	8	–
Other	14	5	16
Securities	(3)	5	66
Real estate acquired in settlement of loans	5	(2)	7
	127	140	205

Canada Trust's provision for investment losses was \$105 million in 1995, compared with \$115 million in 1994. The largest component of this provision in 1995 was \$56 million for corporate loans.

Specific allowances for investment losses are taken on an investment-by-investment basis where practicable. A general allowance for each category of investment is maintained based on historical loss experience for that portfolio. In addition, economic conditions and other factors are considered in calculating general allowances. Criteria for calculating the allowance for investment losses are set out on page 46, and the apportionment of the allowance among investment categories and between specific and general is contained in Note 4 on page 50.

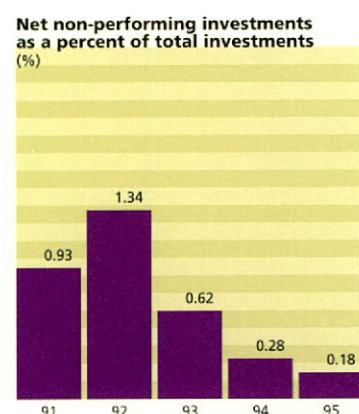
The allowance was charged with investment losses and write-offs of \$136 million in 1995, consisting primarily of commercial real estate, residential mortgages, and credit cards, and was credited with recoveries of \$14 million. This compares with investment losses and write-offs of \$143 million in 1994, primarily for residential mortgages, commercial real estate, and preference shares, and recoveries of \$19 million.

Included in Note 4 on page 50 is information concerning the nature and effect of a change in accounting principles required by the January 1, 1996 adoption of the Canadian Institute of Chartered Accountants' standard for accounting for impaired loans (formerly non-performing loans).

Certain statistical information with respect to the allowance for investment losses is set forth in the following table:

	1995	1994	1993
Allowance for investment losses (in millions of dollars)	375	372	350
As a % of investment losses	307%	300%	176%
As a % of non-performing investments	80%	73%	55%
As a % of total investments	0.73%	0.77%	0.77%

At December 31, 1995, CT Financial Services' allowance for investment losses represented 80% of outstanding non-performing investments, up from 73% at December 31, 1994. Total non-performing investments were \$468 million at December 31, 1995, compared with \$509 million at December 31, 1994, and are detailed in Note 3 on page 50. Carrying values of investments classified as non-performing are reduced by an allowance for investment losses upon determination that such values exceed the estimated net realizable value of these investments. A description of circumstances that lead to an investment being declared non-performing is provided on page 46. Non-performing investments, net of the allowance for investment losses, represented 0.18% of total investments and 4% of consolidated shareholders' equity of CT Financial Services at year-end, compared with 0.28% and 6%, respectively, at year-end 1994.



On average, net non-performing investments of the six largest Schedule I banks as a percent of total investments for 1995 was 0.83%. Canada Trust's non-performing investments were \$393 million at year-end, a decrease of \$57 million from 1994. Net non-performing investments were \$72 million and represented 0.17% of its total investments.

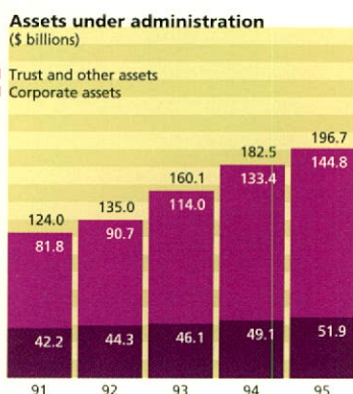
First Federal's non-performing investments totalled \$75 million at December 31, 1995, up from \$59 million at December 31, 1994. First Federal's allowance for investment losses was \$54 million at December 31, 1995. Its general allowance was \$34 million, compared with \$38 million at December 31, 1994, while the specific allowance was \$20 million, up from \$17 million one year earlier.

Personal trust fees are earned by providing investment management and planning services to individuals and trustees. Advisory services also generate fees for income tax planning and administration of wills, estates, and self-directed RSPs. Mutual fund fees, which are based on a percentage of fund assets under administration, decreased 8% from 1994. Canada Trust's share of the Canadian mutual fund market was 3% at the end of both 1995 and 1994. Pension trust fees are earned for custodial services, record keeping services, administration of group RSPs, and securities lending. During 1995, pension assets under administration grew to \$122.3 billion.

Service fees increased 27% during 1995 to \$317 million. Fees on demand deposit accounts increased to \$125 million, while MasterCard fees rose 28% over 1994 based on increased usage.

The 78% increase in brokerage fees reflected the January 1995 acquisition of CT Securities International Inc. and its activities for 10 months. The 21% increase in mortgage servicing included the operations of Sibley Mortgage Corporation from June 30, 1995, its date of purchase.

Mortgages administered for MBS are included in assets under administration. Included in service fees are fees earned for the administration of mortgages used as collateral for these securities. Gains and losses incurred on the initial sale of mortgages as collateral are included in other income.



Operating expenses increased 7% or \$75 million over 1994 and included the operating expenses of two acquisitions during the year, \$12 million for CT Securities International Inc. and \$6 million for Sibley Mortgage Corporation. Salaries and benefits grew 4% in 1995 and represented 49% of operating costs, down from 50% at December 31, 1994. The 6% increase in occupancy cost over 1994 included the cost of a net addition of eight new financial services branches and 67 additional automated banking machines (ABMs) in Canada and the United States.

Pre-tax earnings in 1995 were \$427 million, compared with \$333 million in 1994, an increase of 28%. This amount represents the earnings from operations of CT Financial Services reported by Imasco. CT Financial Services' statutory income tax rate for 1995 was 44.6%. The statutory rate is reduced by income from certain investments that is not taxed, such as income from shares of Canadian corporations and income debentures, and by income earned in foreign jurisdictions to which lower tax rates apply. CT Financial Services' effective income tax rate for the year was 35.1%, compared with 30.3% in 1994.

CT Financial Services' philosophy is to identify and avoid or minimize risks that could have a negative impact on assets and net earnings. Interest rate risk is defined as the potential impact of changes in interest rates on earnings and on net asset values. Interest rate risk arises when principal and interest cash flows, both on and off balance sheet and including final maturities, have mismatched repricing dates. Interest-sensitive assets or liabilities are repriced either when the interest rate changes or a cash flow (such as on final maturity, normal amortization, prepayment of a mortgage, or withdrawal of demand deposit

balances) occurs. The amount at risk is a function of the magnitude and direction of interest rate change and the size and maturity structure of the mismatch position. Interest rate risk is managed by the respective treasury operations of Canada Trust and First Federal.

Canada Trust's philosophy concerning interest rate risk management is to structure return on asset and liability portfolios to create stable earnings and market valuation over time, relative to large interest rate movements; to create and maintain an administrative structure to centralize and focus interest rate risk management; to implement valuation processes and systems for all products; to place priority on earnings stability before earnings enhancement; and to operate the interest rate risk management program within the constraints of all corporate risk policies. Canada Trust identifies, monitors, and analyzes interest rate sensitivity. Methods include duration analysis, analysis of float-rate and short-term asset and liability price exposures, comprehensive cash flow matching, and monitoring exposures across the yield curve. Simulation modelling is used to measure the volatility of net investment income to yield curve exposures over a range of interest rate environments. Exposures are strictly managed through retail product strategies, the use of derivative financial instruments, investment strategies, and other capital market alternatives. Canada Trust's corporate investment policy committee sets policy, monitors overall performance, and approves interest rate risk-management objectives.

First Federal uses income simulation and market value of portfolio equity calculations to assess interest rate risk. First Federal's strategy is to maintain risk within acceptable levels while providing the opportunity to take limited advantage of market conditions. First Federal manages net investment income while keeping risk within strict guidelines. Long-term focus on interest rate risk management has the objective of lowering volatility in net interest income.

Liquidity risk is the possibility of not being able to meet depositors' demands for funds or borrowers' requirements for credit advances. These commitments are met through cash inflows supplemented by assets readily convertible to cash and through capacity to borrow. Monitoring and reporting systems ensure that appropriate action is taken when declines in liquid assets occur. Liquidity is managed separately by Canada Trust and First Federal. Both operating entities have a policy to maintain a specified amount of liquid assets above the minimum amounts required by statute. Management of CT Financial Services expects earnings in 1996 to provide sufficient cash flow to fund capital expenditures, payment of amounts due on notes, mortgages and debentures, and payment of dividends. There are no anticipated or known restrictions on CT Financial Services' ability to declare or pay dividends in the future.

Credit risk is the risk of not receiving full payment of principal when an investment is due, as well as the risk of not receiving the full amount of income expected throughout an investment's term. This risk is controlled through strict lending and investment criteria and limits on exposure to individual borrowers. Credit committees review commitments, and the Board of Directors of CT Financial Services reviews and approves all major investments. Management of CT Financial Services provides what it considers to be adequate allowances against all

known potential credit risks, and these allowances are reviewed quarterly by the Audit Committee of CT Financial Services' Board of Directors. Credit risk is also managed through diversification, which is achieved by investing in a variety of assets and a variety of geographic regions. Diversification is also achieved by enlarging the number of borrowers, limiting the amount loaned to any one borrower or related group, lending against various types of security, and lending in a variety of industrial sectors.

Foreign exchange risk occurs when changes in revenues and expenses or assets and liabilities in currencies other than Canadian dollars are not matched. Foreign exchange risk is managed through daily matching of currency positions.

Derivative financial instruments are used to manage overall interest rate and foreign exchange risk. They are also used to manage risks associated with innovative products issued with embedded features such as early redemptions and interest rate options. CT Financial Services does not enter into contracts as an intermediary to earn fee income and does not trade in such contracts.

Derivative financial instruments used by CT Financial Services include interest rate swap contracts, interest rate options, forward rate agreements, foreign exchange contracts, and options on Eurodollar futures contracts. The risk-weighted value of derivative financial instruments is based on regulatory requirements to hold capital against a portion of the notional amount plus the fair market value of a derivative. The risk-weighted value is the sum of a positive fair market value plus the product of the notional amount of the derivative and a credit risk conversion factor specified for that type and term of contract, discounted by a factor defined by the Office of the Superintendent of Financial Institutions (OSFI) to reflect the creditworthiness of the counterparty. The fair market value of any derivative contract is the present value of expected future cash flows. The fair market value of a derivative financial instrument also represents the cost of replacing a contract at the date that fair market value is determined. The credit risk inherent in any derivative financial instrument results from the possibility of a counterparty being unable to fulfill its obligations under the terms of a derivative contract. The credit exposure amount is the potential decrease in earnings should a counterparty default. Credit exposure can be measured by the cost of replacing contracts at current market rates. It is controlled by limiting available counterparties to those of high quality, which is determined by assigning a long-term debt rating to a counterparty based on the definitions and criteria for rating used by "Approved Rating Organizations" as defined by National Policy No. 47. Exposure under derivative contracts is included when calculating permitted and outstanding exposure for all credit risks to any counterparty. The notional amount, risk-weighted value, fair market value, and the credit exposure amount of CT Financial Services' derivative financial instruments are set out in Note 13 on page 54.

Regulatory risk is the risk that regulators might impose new constraints on business growth. Changes in taxation policy can affect earnings, as can the imposition of exchange controls or withholding taxes. In addition, change or lack of change in governing legislation can affect competitive position in various markets. Careful planning and the ability to respond quickly to changing circumstances can limit the impact of regulatory risk.

The Canadian regulated companies, Canada Trustco and The Canada Trust Company, are required to comply with the eight standards for sound business and financial practices set by the Canada Deposit Insurance Corporation (CDIC). Compliance with these standards is a prerequisite to receiving deposit insurance coverage in Canada. CDIC standards promote prudent management of capital, credit risk, foreign exchange risk, interest rate risk, internal controls, liquidity, real estate appraisals, and securities portfolios. Under the CDIC Standards Assessment and Reporting Program (SARP), management of CT Financial Services was required to complete a self-assessment of its compliance with these standards as of April 30, 1995. SARP requires that, for each standard, a well-defined program of policies and procedures be in place, the program be sound and prudent, and the program be adhered to. Management is then required to report its findings annually to OSFI, which acts on behalf of CDIC to review the company's compliance under SARP. Management of CT Financial Services has prepared the required report, as of April 30, 1995, indicating there were no material deficiencies. OSFI concurred with management's findings in its subsequent review of the report.

Investment activities of the Canadian regulated companies and their subsidiaries are regulated by both federal and provincial statutes. Federal legislation for trust and loan companies provides the Canadian regulated companies with full powers to make prudent investments on virtually the same basis as banks. Guidelines issued by OSFI and standards of sound business and financial practices developed by CDIC provide a framework for prudent management of investment and lending portfolios.

Federal legislation permits companies to engage in commercial lending, subject to the approval of OSFI. The Canadian regulated companies have received approval to make or acquire commercial loans without a predetermined limit. Commercial loans, as defined in the legislation, constituted 7% of consolidated assets of Canada Trustco at December 31, 1995. Federal rules restrict the provision of financing for real estate acquisition, development, and construction projects. Investments in interests in real property and in certain defined equity investments, including common shares of corporations and ownership interests in unincorporated entities, are each limited to 70% of capital and to 100% of capital in aggregate. As Canada Trustco's interests in real property were 50% of capital at December 31, 1995, future acquisitions will be limited by growth in capital.

The Loan and Trust Corporations Act (Ontario) (the Ontario Act) contains a prudent investment standard and limits the portion of total assets that may be invested in certain types of assets including personal loans, commercial loans, corporate securities, common shares, real estate, and certain subsidiaries. Amendments to the Ontario Act to replace these provisions with provisions similar to federal rules were not proclaimed in force prior to dissolution of the legislature in 1995. Future legislative action is unknown at this time. First Federal is subject to similar investment limitations under U.S. legislation. U.S. savings and loans must meet a Qualified Thrift Lender test, which requires the maintenance of at least 70% of assets in qualifying investments. At December 31, 1995, First Federal's ratio was 94%. First Federal is deemed to be well capitalized by the Federal Deposit Insurance Corporation and Office of Thrift Supervision (OTS).

Capital funds provide a foundation for future growth as well as protection against losses and serve as a basis for accepting deposits and for the continuing expansion of credit services. Capital funds are generated internally from earnings after expenses, income taxes, and dividends have been paid. Capital funds are generated externally from the sale of securities to investors. Management of CT Financial Services has the dual responsibility of obtaining adequate capital and earning a satisfactory return on it. Capital adequacy maintains investors' and depositors' confidence in the stability of CT Financial Services and is determined by management prudence and business conditions.

During the past few years, management of CT Financial Services has undertaken a program of capital reorganization.

Canada Trustco issued subordinated debt in the form of capital debentures: \$150 million in 1993, \$150 million in 1994, and \$200 million in 1995. These capital debentures provide additional Tier 2 capital to permit both Canada Trustco and CT Financial Services to exceed capital adequacy standards.

In 1995, Canada Trustco issued \$150 million non-cumulative redeemable third preference shares, series 1, with a future provision of voting rights, which will satisfy the federal legislation requiring Imasco to reduce its voting interests to 65% by June 1, 1997. Simultaneously, Canada Trustco redeemed all the cumulative redeemable first preference shares, series B, representing approximately \$8 million, and through issuer bids for the cumulative redeemable first preference shares, series C and the cumulative redeemable second preference shares, series 1 further reduced outstanding preference shares by \$67 million. Completing this series of transactions was a special dividend payment of \$200 million to its parent, CT Financial Services.

In addition, CT Financial Services redeemed its \$100 million cumulative redeemable perpetual first preference shares, series 1 and its \$50 million non-cumulative redeemable perpetual first preference shares, series 2 and paid a special dividend of \$180 million to its common shareholders.

These changes to the capital structure will reduce the cost of preference shares going into 1996 and, by reducing capital stock, will improve the return on average common shareholders' equity while continuing to meet and exceed capital adequacy standards and maintaining credit ratings.

The Canadian regulated companies are subject to federal capital guidelines similar to those applied to Canadian chartered banks, and to provincial regulations that prescribe minimum capital requirements. There are two federal measures of capital adequacy. The risk-weighted capital ratio for the Canadian regulated companies is based on standards developed by the Bank for International Settlements (BIS) as a common international measure of capital adequacy. These standards define acceptable types and levels of core and secondary capital and weight assets by credit risk. Canadian trust and loan companies are required to meet a minimum risk-weighted capital ratio of 8%. At December 31, 1995, Canada Trustco's ratio was 11.02%. Although not a regulated company, CT Financial Services had an estimated risk-weighted capital ratio of 11.08%, based upon BIS guidelines

for Canadian trust and loan companies. The following table sets out the risk-weighted capital ratios of Canada Trustco:

	1995	1994	1993
	Millions of dollars		
Risk-weighted assets			
On balance sheet	19,909	19,482	18,991
Off balance sheet	71	34	17
	19,980	19,516	19,008
Qualifying capital			
Tier 1	1,654	1,582	1,378
Tier 2	547	424	427
	2,201	2,006	1,805
Capital ratios			
Tier 1	8.28%	8.10%	7.25%
Tier 2	2.74%	2.18%	2.25%
	11.02%	10.28%	9.50%

The second capital adequacy standard is the multiple of total adjusted assets to qualifying capital. It is limited to a maximum of 20 times, unless OSFI approves a higher level. The Canadian regulated companies have each been permitted to maintain a multiple not in excess of 22 times, provided that the total risk-weighted capital ratio is at least 9.5%. Canada Trustco's total asset to capital multiple was 19 times at December 31, 1995.

Borrowing powers of the Canadian regulated companies are limited by certain provincial statutes that prescribe maximum borrowing multiples, calculated as defined borrowings divided by defined capital. Each jurisdiction has different definitions of borrowings and capital. At December 31, 1995, Canada Trustco's borrowing multiples under Ontario and Québec guidelines were 23.7 and 20.7, respectively, compared with 22.0 and 21.0 in 1994. The maximum borrowing multiple in these provinces is 25.0.

Regulatory capital requirements for U.S. savings and loan companies are established and enforced by OTS. The Financial Institutions Reform, Recovery and Enforcement Act requires OTS to institute uniform capital standards to satisfy three separate tests: a tangible capital standard, a leverage ratio or core capital standard, and a risk-based capital standard. OTS is required to ensure that these standards are no less stringent than those required of U.S. national banks. Under these standards, First Federal is considered to be well capitalized.

The Canadian federal government must enact legislation before June 1997 to re-authorize the financial institution statutes. Consultations with the financial services industry took place in 1995. A White Paper discussion of potential changes in legislation is expected in the spring of 1996. In December, Alberta announced plans to discontinue regulation of solvency of federal and extra-provincial trust companies. Ontario must re-authorize its trust company statute through amending legislation by July 1997. Saskatchewan has also announced plans to update its trust company legislation. Any movement by the provinces to reduce regulation of federal trust companies would be beneficial to the Canadian regulated companies as it would reduce compliance costs and would improve competitiveness vis-à-vis banks, which have only one direct regulator – OSFI.

Amendments to the Ontario Act passed in June 1994 have not been proclaimed in force. If implemented, these changes will among other things update investment standards, types of permitted subsidiaries, and rules affecting the issuance of subordinated debentures.

The federal budget now before the U.S. Congress includes a plan to reform the federal deposit insurance system that, if enacted, would result in a one-time charge against First Federal's earnings and an ongoing reduction in its annual premiums. The charge against earnings is expected to be approximately \$26 million after income taxes. Banking reform legislation now pending in Congress could result in constraints on growth through acquisition for savings and loan companies that, like First Federal, are owned by a holding company such as CT Financial Services.

CT Financial Services' high asset quality and strong capital position ensure that it continues to be rated one of the strongest financial institutions in Canada. The creditworthiness of the securities of CT Financial Services is reviewed regularly by the Canadian Bond Rating Service Inc. (CBRS) and the Dominion Bond Rating Service Limited (DBRS). CT Financial Services' ratings at December 31, 1995 were as follows:

	CBRS	DBRS
Convertible debentures	A (high)	AA (low)
Senior preference shares	P-1	Pfd-1
Non-cumulative preference shares	P-2	Pfd-1 (low)

Inflation, although on the rise during 1995, was well-contained by central bank interest rate policies in both Canada and the United States. An easing of these policies late in the year is seen as an effort to keep the economies from faltering rather than as a victory over inflation. It is anticipated that inflation in Canada will continue at levels below that of the United States. Interest rate policies are expected to continue to be used as the main control on inflation in 1996. Such government policies necessitate close attention to treasury operations for CT Financial Services in managing treasury risk.

CT Financial Services' primary focus in 1996 will continue to be the provision of a full range of personal banking and wealth management services designed to meet the growing financial needs of individuals. Resource allocation will focus on providing

delivery of superior service through fully integrated sales-oriented distribution systems. The intent is to concentrate on expanding alternative distribution channels such as ABMs, drive-thrus, and telephone and home-based personal computer banking, while improving and streamlining the retail branch networks in both Canada and the United States.

Financial intermediary services will be the major contributor to consolidated net earnings of CT Financial Services for the foreseeable future. Accordingly, the cost of providing such services will continue to have the greatest impact on overall profitability.

Easing of interest rates should improve the credit environment and reduce the number of bankruptcies in 1996 below the record-high levels in Canada during 1995. Management of CT Financial Services intends to continue its long-standing policy of conservative lending practices, to reduce overall credit risk, and to prudently manage exposure limits. Real estate investment property values and the ratio of the allowance for investment losses to non-performing investments will continue to be monitored to ensure appropriate coverage.

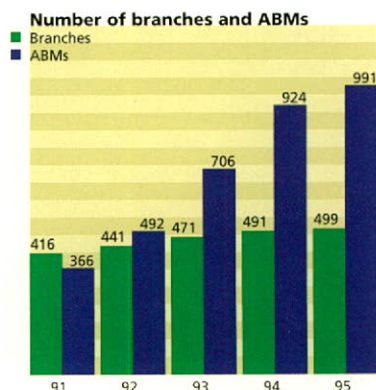
High interest rates in both Canada and the United States during most of 1995 resulted in reduced economic growth from that forecast last year. Reductions in the trend-setting interest rates in late 1995 and early 1996 may prelude increased economic activity; however, continuing lack of consumer confidence and record-high consumer debt levels will not be easily overcome. Improved growth in the economy, coupled with continued cost control and low interest rate and conservative credit risk profiles, should provide opportunities for CT Financial Services to increase earnings in 1996 and beyond.

Hardee's Food Systems

The negative sales and earnings trend at Hardee's continued in 1995. System sales, which include sales by company-operated and licensed restaurants as well as third-party sales by Fast Food Merchandisers (FFM), declined 6% during 1995 to US \$4.5 billion. The average unit sales volume (AUV) for all restaurants in the system decreased to US \$943,000 in 1995 from US \$1,007,000 in 1994, and on a comparable restaurant basis system AUVs declined 7.1%. The decline in AUVs was experienced by restaurants operating under both the Hardee's and Roy Rogers trademarks and worsened as the year progressed. The poor performance is substantially attributable to a very difficult fast food industry environment characterized by intense competitive pricing activity and continued expansion by competing chains in a mature market.

AUV declines of Hardee's and Roy Rogers restaurants caused a reduction in the sales of FFM. In 1995, approximately 76% of Hardee's and Roy Rogers licensed restaurants purchased some or all of their food, paper, and cleaning supplies from FFM, a slight decrease from 1994. In addition, approximately 70% of Hardee's and Roy Rogers' requirements for hamburgers were supplied by FFM's manufacturing facilities, compared with 73% in 1994.

The Hardee's restaurant system consisted of 3,899 restaurants at December 31, 1995, down from 4,006 restaurants a



year ago. This included 3,464 Hardee's restaurants and 435 Roy Rogers restaurants, compared with 3,516 and 490, respectively, a year earlier. Company-operated Hardee's restaurants increased by 59 during the year to total 864 at year-end, while licensed Hardee's restaurants declined by 111 to 2,600. During 1995, 142 underperforming Hardee's restaurants were sold or closed, and 90 new, predominantly licensed Hardee's restaurants were opened. In addition, 88 Hardee's restaurants were acquired from licensees and converted to company-operated restaurants, while 13 company restaurants were sold to licensees. The intention with respect to restaurants acquired from licensees is generally to operate them as company restaurants until they can be resold to another licensee.

Development plans for new restaurants in 1996 are modest, as Hardee's will concentrate on reducing its restaurant base to a more profitable core. The overall quality of the restaurant system is important to Hardee's, and underperforming restaurants are closely monitored and sold or closed when appropriate. During 1996, the company expects the number of Hardee's company-operated and licensed restaurants to be reduced by three to four percent through closures and sales to third parties by Hardee's and licensees.

Hardee's revenues, which are detailed on page 67, consist of sales by company restaurants, third-party sales of food and supplies by FFM, and service and license fees. Sales by company restaurants, the largest source of Hardee's revenues, were 4% below 1994 levels. The reduction reflects lower company AUVs which on a comparable basis declined 5.7% for the reasons previously discussed. The reduction in the number of licensed restaurants led to lower gross service fee revenues. Furthermore, the difficult industry environment resulted in an increase in the non-accrual of service fees from some licensees. This represents service fees earned but not recognized as revenues because their ultimate collection is in doubt.

Before the special charge of US \$239 million discussed below, earnings from operations declined to US \$20 million in 1995 from US \$97 million the previous year. The reduction is primarily attributable to restaurant operations and is a direct result of the poor sales performance and the failure to adjust controllable expenses to the lower sales revenues. The overall gross margin percentage in restaurant operations was almost unchanged. Earnings from operations of FFM in 1995 were below 1994 levels due to the reduction in sales, changes in the product mix, and increased bad debt reserves.

Canadian dollar operating results of Hardee's, detailed on page 12, are affected by fluctuations in exchange rates. Fluctuations in the value of the Canadian dollar relative to the U.S. dollar did not have a significant effect on the comparability of earnings from operations between 1995 and 1994. Exchange rate risk is managed from an overall perspective by Imasco and is discussed in greater detail on page 42.

Several senior management changes were made at Hardee's in the latter part of the year. Steve McManus, who previously worked for 25 years with Hardee's largest licensee, most recently as Executive Vice-President, was appointed President of Hardee's effective September 1, 1995 and also became Chief

Executive Officer effective January 1, 1996. In addition, Ray Perry, who has many years of leadership experience in the fast-service restaurant industry, joined Hardee's as Chief Operating Officer on September 18, 1995. To address deficiencies in the marketing area, Dan Ginsberg was recruited as Executive Vice-President, Marketing on December 4, 1995.

In assessing 1995's disappointing results, management has identified weaknesses in operations, menu, and marketing. Measures to improve operations will focus on consistently delivering hotter, better-prepared food with friendlier service in a cleaner environment. Hardee's is critically examining its menu, and products that contributed little to profitability are being dropped. This should facilitate operations and improve service. A stronger, more competitive value menu is being developed in an effort to build customer traffic. Hardee's is also working on establishing a "signature" hamburger to better compete with those of its major competitors. With new leadership in the marketing area, the focus will be on improving the marketing program to support the operational and menu management initiatives under way.

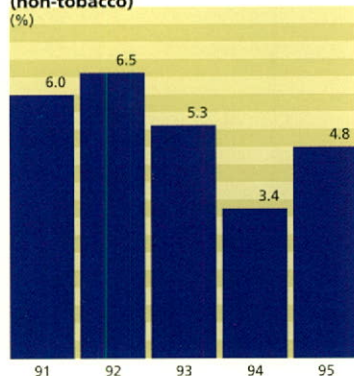
On December 15, 1995, Hardee's announced its intention to sell the Roy Rogers restaurant chain. The Roy Rogers restaurants have been a drain on the profitability and resources of the company and did not fit the long-term strategy of building the Hardee's trademark. In addition, on the same date, Hardee's announced the closure of FFM's Rocky Mount, North Carolina plant, the smallest of its three plants; a 10% reduction in workforce at Hardee's and FFM's head offices; and its intention to reduce the number of Hardee's company and licensed restaurants by three to four percent in 1996 as a result of divestitures of underperforming properties. These actions resulted in a special charge of \$325 million (US \$239 million) against fourth-quarter 1995 earnings (refer to Note 18 on page 56). The special charge related predominantly to a write-down of Roy Rogers assets. Two agreements have already been reached to sell 59 Roy Rogers restaurants in the New York area, and discussions concerning the sale of the remaining few Roy Rogers restaurants in the New York area and 178 company-operated restaurants in the Baltimore/Washington markets are taking place. It is anticipated that these Roy Rogers restaurants will be sold during 1996. The Roy Rogers operations incurred an operating loss of \$40 million (US \$29 million) during 1995, and the prospects for future improvement without substantial dedication of additional resources were not favourable. With the decision to divest the chain and the discussions with potential buyers that ensued, the company was able to reasonably estimate the total market value of the business and the amount of the write-down. While the amount of the special charge is significant from an earnings perspective, it had no impact on 1995 cash flow.

The competitive intensity of the industry, the weakened condition of certain Hardee's licensees, and other factors that made 1995 such a challenging year are expected to persist in 1996. However, the steps taken by management to strengthen Hardee's in the latter part of 1995 are expected to lead to improvements in operating performance and marketing in 1996.

Shoppers Drug Mart/Pharmaprix

System sales increased 2% in 1995 to \$3.3 billion. On a comparable store basis, which excludes the impact of stores opened or closed during the year, sales increased 0.5% overall and 4.8% excluding tobacco products. Sales were negatively affected by Ontario legislation that, effective January 1, 1995,

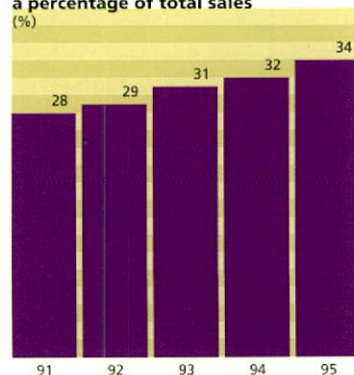
Comparative store sales increase (non-tobacco)
(%)



prohibited the sale of tobacco products in pharmacies and in stores having pharmacy departments. The legislation is estimated to have eliminated about \$100 million in annual system sales for Shoppers Drug Mart. The company is countering the loss of tobacco sales in its Ontario stores by focusing on new and growing merchandise categories. The increase in non-tobacco sales reflects both increased customer counts and a higher average sale per customer. It is also partially due to the net addition of 28 stores in 1995. During the second quarter, Shoppers Drug Mart completed the acquisition of Saskatchewan-based Bi-Rite Drug Stores, which added 24 stores to the system. In addition, 21 new stores were opened or acquired during 1995, and 17 stores were closed or sold. At December 31, 1995, there were 717 stores in the Shoppers Drug Mart system. In 1995, the average sales volume per store was \$4.6 million, compared with \$4.7 million in 1994, and the average sales per square foot was \$786, compared with \$798 in 1994. The drop in both these figures was principally due to the Bi-Rite acquisition, where sales volume was below that of a typical Shoppers Drug Mart store.

Prescription sales grew strongly over the year and accounted for 34% of total sales in 1995, compared with 32% in 1994.

Prescription sales as a percentage of total sales
(%)



On a comparable store basis, prescription sales increased 6.9% during 1995, compared with an increase of 3.2% in 1994, due both to higher prescription counts and a higher average selling price driven by higher drug costs.

Except for eight Home Health Care stores, all stores are owned by pharmacists and do business under license or franchise agreements with Shoppers Drug Mart. Revenues of Shoppers Drug Mart consist principally of fees for a wide range of services provided to its licensees and franchisees ("associates") and income from the rental of store equipment to associates. Total revenues decreased 1% during 1995 to \$192 million. Fee revenue declined due to the lower profitability of franchised stores, while equipment rental revenue and sundry income were higher than in 1994.

Earnings from operations decreased 7% to \$96 million. The decrease, which was anticipated, was principally caused by the competitive retail environment, the prohibition of tobacco sales in Ontario drugstores, and start-up costs for the Vision 97 project discussed below. Store gross margins in 1995 were essentially unchanged from 1994. Reduced gross margins in certain product categories were offset by a shift in sales mix to higher-margin categories, mainly because of the decline in lower-margin tobacco sales, and stronger prescription sales. Sales of higher-margin corporate brand products continued to be strong and contributed to the stability of the gross margin percentage. In 1995, sales of these products represented approximately 12% of sales, excluding prescriptions and tobacco, unchanged from 1994.

Provincial governments continue to focus on controlling rising health-care costs, which has placed downward pressure on prescription gross margins. Cost-cutting measures implemented include reduced drug coverage, reduced compensation to pharmacies, and the sharing of costs with users. Ontario has proposed substantial changes to the Ontario Drug Benefit Plan (ODBP), effective June 1, 1996. The proposals would require a minimum co-payment of \$2 on each prescription filled for all participants and an annual deductible of \$100 for seniors whose annual income exceeds \$16,000 individually or \$24,000 per couple. In addition, proposed changes to the ODBP and to the Prescription Drug Cost Regulation Act would effectively eliminate restrictions on what pharmacies can charge customers for the drug cost portion of their prescription. It is too early to assess the precise impact that these measures would have on industry structure and market dynamics. Governments have also been active in regulating the sale of tobacco products. The prohibition of tobacco sales in drugstores could move beyond Ontario, which would have negative consequences for the company.

Employers sponsoring drug plans have also taken measures to control rising employee health-care costs. Companies that specialize in the administration of drug plans are entering the Canadian market. In response, Shoppers Drug Mart continues to expand its professional pharmacy services in the area of managed care and to assist companies in managing their drug programs.

Competition from both inside and outside the traditional drugstore industry continues to be strong. Food stores and mass merchandisers continue to emphasize traditional drugstore categories of health and beauty aids, over-the-counter medications, and cosmetics. Typically, they price these products aggressively and use them as loss-leaders. These retailers also continue to add pharmacies to their stores, generally promoting discounted dispensing fees. The entry of Wal-Mart into the Canadian market has intensified the level of competition and lowered industry margins. Given its aggressive expansion plan, Wal-Mart is expected to spread into more Canadian communities over the next few years. Shoppers Drug Mart's competitive positioning emphasizes the company's excellent service and the convenience of its locations and shopping hours. The company continues to expand the number of stores offering extended hours. As well, it has added services such as retail postal outlets, lottery ticket sales, and automated banking machines, all of which promote Shoppers Drug Mart as a shopping destination. Significant emphasis is also placed on the value-added professional services provided by Shoppers Drug Mart's pharmacists. The *Health-Watch Reminder* program, which provides instructions, special care requirements, and information about potential drug interactions and side effects for prescribed drugs, is a prime example of the service-minded approach that helps build customer loyalty.

The most significant current competitive initiative of Shoppers Drug Mart is its Vision 97 project. This comprehensive, three-year program launched in 1994 was undertaken to lower the system's costs of operations and increase productivity. Pivotal to the plan is the centralization of purchasing, distribution, and accounting. Once fully implemented, the program should result in lower product acquisition costs, better managed inventories, additional shelf space for new products, and reduced labour costs. During 1995, Vision 97 moved into the implementation phase, with a focus on developing the systems and support infrastructure. The first of three regional distribution centres began operations late in the year, with the other two expected to open in 1996. The project is on schedule for completion by the end of 1996.

Industry pressures resulted in consolidation opportunities during 1995. In addition to acquiring Bi-Rite as well as 14 independent drugstores, Imasco announced in October that it had entered into an agreement to acquire Big V Pharmacies Co. Limited (Big V), a chain consisting of 135 drugstores primarily in southwestern Ontario (refer to Note 26 on page 58). The regulatory approval required to proceed with the transaction has been obtained, and the company expects to commence its takeover bid on February 1, 1996. The bid will be conditional upon receiving at least 90% of the outstanding shares. Assuming this condition is met, the transaction is expected to close during the first quarter of 1996. Plans are to convert the Big V stores to the Shoppers Drug Mart trademark during the first quarter of 1997, after the completion of the Vision 97 project. Wherever possible the attributes of Big V that are most valued by its customers will be maintained. Combining the two chains will create synergies

and savings that will benefit all stores. There are very few overlapping Shoppers Drug Mart and Big V locations. After interest charges and amortization of goodwill, the impact of the acquisition is expected to be near break-even for Imasco in 1996 and positive in 1997 and thereafter. Shoppers Drug Mart will continue to pursue attractive acquisition opportunities in 1996.

The company will face a highly competitive retail environment again in 1996 and will also be incurring significant ramp-up expenses associated with Vision 97's implementation. Therefore, Shoppers Drug Mart expects only modest improvement in earnings from operations in 1996, excluding the impact of the Big V acquisition. However, once Vision 97 is fully implemented, more significant earnings growth is expected in 1997 and thereafter.

Genstar Development Company

Genstar Development, a residential land development company, operates in a cyclical industry that depends on consumer demand for new housing. Operating results are largely driven by consumer confidence, which is contingent upon factors such as economic growth, levels of employment, and interest rates in the regions in which the company does business. Since the latter half of 1994, Canadian residential real estate markets have endured lower sales activity caused by a weakening in consumer confidence. As a result, Genstar Development's 1995 revenues and earnings from operations decreased 19% and 23%, respectively. The number of single-family lots sold in 1995 declined to 1,073 from 1,271 in 1994, and 912 acres were sold as parcels and raw land, compared with 214 acres in 1994. Gross margins can vary significantly from year to year depending upon the mix of sales. During 1995, the overall gross margin percentage was higher than in 1994, and operating costs were in line with those of 1994.

The company has been able to operate successfully even in difficult economic periods due to its geographically diversified land inventory and product mix. High gross margins have been maintained because of skillful land acquisitions, conservative capitalization policies, and effective cost control.

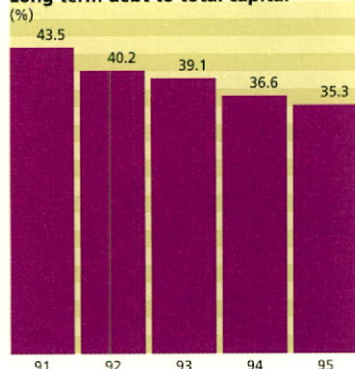
Genstar Development continues to pursue profitable investment opportunities, particularly in the United States. During 1995, Genstar Development acquired 153 acres in Atlanta, Georgia, and 22 acres in Calgary, Alberta, and Winnipeg, Manitoba, and it exercised an option to acquire 176 acres in Minnesota. In addition, the company entered into options to acquire 373 acres in Minnesota and 461 acres in Oregon. A target market analysis performed by the company has identified several U.S. cities as having high potential, and a search for additional acquisitions is under way. During 1995, approximately 21% of Genstar Development's sales were in the United States, and the objective is to grow this proportion. The company also continues to pursue joint-venture opportunities that enable it to acquire an interest in developable land for a modest capital investment and to leverage its skills as a land developer.

The outlook for 1996 is for a modest increase in revenues and earnings from operations. Beginning in 1997, a number of U.S. projects that have been advancing are expected to accelerate the company's earnings growth.

Consolidated financial condition

Imasco's ratio of long-term debt to total capital was reduced to 35.3% at December 31, 1995, compared with 36.6% at December 31, 1994. The company's long-term objective is a 35% ratio, allowing for temporary variations that may result from business acquisitions. Long-term debt amounted to \$1.8 billion at December 31, 1995, compared with \$1.9 billion the previous year. Approximately 39% of the company's long-term debt at December 31, 1995 was denominated in U.S. dollars, compared with approximately 43% at December 31, 1994. Because of the stronger Canadian dollar at December 31, 1995, the carrying value of this debt decreased. In addition, long-term debt was reduced as a result of positive cash flows, particularly with the receipt of a special dividend of \$175 million from CT Financial Services.

Long-term debt to total capital



Shareholders' equity decreased by \$73 million during 1995. Imasco's net earnings during 1995 were lower than total dividend payments by \$12 million, while the stronger Canadian dollar at year-end caused the unrealized foreign exchange gain to decrease by \$23 million. The company's common share repurchase program reduced shareholders' equity by \$50 million: \$7 million as a reduction of capital stock, representing the stated value of the 2,066,400 common shares repurchased, and \$43 million as a charge to retained earnings, being the amount by which the purchase price exceeded the stated value. During 1995, 874,330 common shares were issued pursuant to the exercise of stock options, for a consideration of \$14 million.

Long-term debt maturities repaid during 1995 consisted of \$112 million of medium-term notes. During the fourth quarter of 1995, Imasco issued \$100 million of medium-term notes for terms of three and four years and repaid variable-rate debt. Also during 1995, Imasco entered into an additional US \$25 million interest rate swap in order to fix the interest rate on variable-rate debt. In total, at December 31, 1995, the interest on US \$175 million of variable-rate debt had been effectively converted to fixed interest rates by means of interest rate swap contracts.

Maturities in 1996 consist of \$150 million 11.85% debentures due February 15, 1996, \$200 million 10% debentures due November 20, 1996, and \$9 million medium-term notes. Current plans call for these maturities to be refinanced through an existing long-term credit facility.

Imasco maintains committed credit facilities that make significant financial resources available and provide the company with the flexibility to meet short- and long-term borrowing requirements. As a result of an ongoing review of its borrowing and credit requirements, Imasco renegotiated its credit facilities in 1995 to benefit from more advantageous market conditions. The credit previously available under a seven-year, US \$1.25 billion, revolving credit facility was replaced by a new, US \$1 billion, revolving facility that comprises a one-year US \$300 million tranche and a five-year US \$700 million tranche. In addition, the available credit under a five-year, US \$125 million, medium-term loan facility was replaced by a new, five-year, medium-term loan facility of US \$200 million. The net effect has been to lower the company's overall cost of debt by reducing both the interest cost on its direct borrowings as well as the cost of standby fees associated with maintaining unused available credit facilities while still maintaining more than adequate available credit. At December 31, 1995, Imasco had US \$655 million of unused credit facilities available for additional direct borrowings and for backing up issues of commercial paper. The financial strength of Imasco is reflected in its credit ratings. During 1995, the rating of the long-term debt of Imasco Limited was confirmed at A (high) by CBRS, and the ratings by DBRS and Standard and Poor's remained at A.

At December 31, 1995, net cash resources, defined as cash and short-term investments less bank and other short-term loans, amounted to \$17 million, compared with \$77 million at December 31, 1994. The decline reflects the reinvestment of short-term instruments into higher-yielding, long-term securities. The net cash resources, together with Imasco's significant available credit facilities and cash-generating abilities, ensure that short-term operating requirements will be met. The net working capital position at December 31, 1995 was \$379 million, compared with \$401 million the previous year, and the ratio of current assets to current liabilities at both December 31, 1995 and 1994 was 1.4:1.

On May 2, 1995, Imasco shareholders approved a two-for-one stock split of the company's common shares, which subsequently took effect at the close of business on May 15, 1995. Comparative amounts have been restated accordingly.

In July 1995, the Board of Directors of Imasco authorized a normal course issuer bid to purchase up to 4,000,000 Imasco Limited common shares, representing approximately 1.7% of the then-outstanding common shares. The Board of Directors of Imasco had allocated up to \$100 million to the purchase of common shares during 1995. During 1995, 2,066,400 common shares were purchased under normal course issuer bids by Imasco for a total consideration of \$50 million. In previous years, Imasco's normal course issuer bids have been for a period of twelve months commencing in August. However, in January 1996, the Board of Directors determined it would be desirable to align the period of the bid more closely with the company's fiscal year in order to facilitate planning and allocation of capital. A new normal course issuer bid, replacing the previous bid, was therefore authorized for the purchase of up to 5,000,000 Imasco Limited common shares (representing

approximately 2.15% of the then-outstanding common shares) during the twelve-month period commencing on February 2, 1996. Common shares may be purchased when they represent an attractive investment opportunity for Imasco. The company may also purchase common shares under the bid to cover the exercise of options under Imasco's stock option plan (thereby reducing the dilution that would otherwise result) or to make shares available for other purposes. Shares must be purchased at the market price at the time of acquisition, plus brokerage fees. Imasco expects the total cost of common shares to be purchased during 1996 not to exceed \$135 million.

Imasco has significant operations in the United States, and exchange rate fluctuations have an impact on net earnings and net asset values. This exposure is minimized by Imasco's practice of maintaining borrowings in U.S. dollars, which are prudently managed by taking into account the differing costs of borrowing in the two currencies. The average exchange rate during 1995 was approximately US \$1 = Cdn \$1.37, virtually unchanged from 1994. Based upon the amount of net loss incurred in U.S. dollars in 1995, including the special charge, each movement of one cent in the U.S./Canadian exchange rate would have had an impact of approximately \$2 million on net earnings. The future impact of exchange rate fluctuations on net earnings depends upon the level of net earnings generated in U.S. dollars.

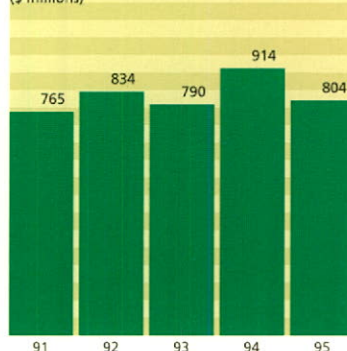
As discussed in greater detail on page 35, CT Financial Services actively uses derivative financial instruments as risk-management tools to protect against interest rate and foreign exchange risk and to hedge risks associated with certain innovative products. Imasco employs derivative financial instruments to a limited extent to manage its exposure to interest rate fluctuations (principally interest rate swaps and occasionally forward rate agreements). In addition, from time to time the company enters into forward currency contracts as part of its management of foreign exchange risks. Information with respect to the company's interest rate swaps and foreign exchange forward contracts is disclosed in Note 9 on page 52. The foreign exchange forward contracts outstanding at December 31, 1995 form part of an overall strategy to manage Imasco's available cash at the end of 1995 and anticipated cash flow in early 1996. During December 1995, the company employed available Canadian currency to purchase US \$230 million (Cdn \$314 million) for the repayment of U.S. dollar denominated debt. At the same time, the company entered into forward currency contracts to sell the same amount of U.S. dollars at forward prices also totalling Cdn \$314 million at various dates in early 1996. The combined effect of these transactions was to optimize the use of available Canadian currency without altering Imasco's foreign exchange risk profile and at the same time position the company to best match its anticipated cash availabilities and requirements in early 1996.

Consolidated cash flows

The audited statements of changes in financial position presented on page 49 are prepared in accordance with generally accepted accounting principles and consolidate the activities of CT Financial Services on a line-by-line basis. However, the actual cash contribution from CT Financial Services is the amount of dividends received by Imasco, which was \$269 million in 1995 and \$93 million in 1994. The increase reflects the receipt of a special dividend of \$175 million on December 22, 1995. Unaudited summaries of cash flows, which exclude the line-by-line activities of CT Financial Services and recognize the dividend received as a single amount, are presented on page 62. Management considers this presentation to be more meaningful. Imasco continued to generate strong cash flows in 1995, particularly with the additional dividend received from CT Financial Services. As illustrated on page 62, Imasco generated \$100 million of available cash during 1995, compared with \$310 million in 1994. The decline reflects decreased earnings at Hardee's as well as additional requirements for capital expenditures and dividends in 1995. Of the available cash in 1995, a net \$124 million was applied towards the reduction of long-term debt, and a net \$36 million was used for capital transactions (\$50 million for repurchases of Imasco Limited common shares offset by the receipt of \$14 million from the exercise of stock options). Cash and cash equivalents at December 31, 1995 were reduced by \$60 million from a year earlier.

Cash from continuing operations decreased to \$804 million in 1995 from \$914 million in 1994. Although net earnings were significantly reduced in 1995 because of the \$325 million special charge with respect to Hardee's (refer to page 38 and Note 18 on page 56), the special charge had no impact on 1995 cash flows, as most of the charge related to a write-down of asset values. Amortization expense and CT Financial Services' provision for investment losses are other significant expense items that do not have an impact on cash flow. Amortization expense

Cash from continuing operations
(\$ millions)



increased by \$8 million in 1995 as a result of increased capital investments by CT Financial Services and Shoppers Drug Mart. The provision for investment losses, which represents the amount charged to earnings for anticipated future investment losses, was reduced as a result of generally improved credit conditions. The impact of changes in non-cash current assets and liabilities on cash flows is detailed in Note 25 on page 58. The

decrease in the income, excise, and other tax liabilities reflects payments during 1995 of prior-year tax liabilities in Canada and the recording of taxes recoverable as a result of losses carried back to prior years in the United States.

Cash from operating activities was again sufficient to fund dividend payments and capital expenditures. Dividend payments by class of shares are detailed in Note 23 on page 57. The comparability of dividend payments between years is affected by capital transactions and changes in dividend rates. Dividends on preference shares were reduced in 1995 due to the June 30, 1994 redemption of \$15 million of Perpetual First Preference Shares, Series D and the repricing on the same date of the dividend on the remaining \$135 million from 7.9% to 6.9%. In addition, during the fourth quarter of 1994, all 6% Cumulative Preference Shares were repurchased for \$6 million. The amount returned to holders of common shares in the form of dividends rose in 1995 following the 23% increase in the annual dividend rate per common share to \$0.96 in 1995 from \$0.78 in 1994. Excluding the special charge, the dividend per common share represented 41.7% of earnings per common share in 1995, compared with 37.3% in 1994. The impact of the dividend rate increase on total dividend payments was partially offset by a reduction in the number of common shares outstanding as a result of repurchases under the company's normal course issuer bids. Common share activity is detailed in Note 16 on page 55. On January 31, 1996, Imasco's Board of Directors approved a 12.5% increase in the indicated annual dividend rate for 1996 to \$1.08 per common share. Based upon this new rate and the number of common shares outstanding at December 31, 1995, dividend payments on common shares will increase by approximately \$27 million in 1996. However, the number of common shares outstanding will vary in 1996 depending upon the level of share repurchase activity by the company, the number of shares issued pursuant to the acquisition of Big V (Note 26 on page 58), and the exercise of stock options.

Gross additions to capital assets, detailed by company, are listed in Note 33 on page 61. Capital spending at Imperial Tobacco increased considerably in 1995 as the company embarked on a major, three-year program to modernize production facilities and upgraded its information technology systems. Imperial Tobacco capital expenditures should increase again in 1996 when the company's spending on the modernization of production facilities peaks. Capital expenditures by CT Financial Services continue to be related to technology and to the ongoing expansion of the retail branch network and alternative delivery systems. CT Financial Services' disbursements in this area in 1996 should not vary significantly from 1995 levels. Additions to capital assets by Hardee's increased from US \$69 million in 1994 to US \$89 million in 1995, reflecting higher spending on restaurant remodelling, concept testing, and maintenance. Furthermore, additions to capital assets in 1995 included an additional US \$29 million with respect to the acquisition of restaurants from a licensee in one of Hardee's stronger markets. Capital expenditures by FFM in 1995 did not vary much from 1994 levels. It is expected that 1996 capital expenditures by Hardee's will decline and be primarily for maintenance and remodelling. Shoppers Drug Mart's capital expenditures increased considerably in 1995 to \$124 million due to its

Vision 97 program, principally for information technology requirements as well as land, buildings, and equipment for its company-owned distribution centres. Capital asset additions in 1996 by Shoppers Drug Mart should be well below 1995 levels. However, during 1996, Shoppers Drug Mart will have significant requirements for working capital to stock the distribution centres. On a consolidated basis, Imasco's 1996 additions to capital assets are expected to approximate \$360 million and will be funded internally.

As discussed in Note 26 on page 58, Imasco expects to complete the acquisition of Big V in the first quarter of 1996, for a total consideration of approximately \$243 million. The consideration, at the election of Big V shareholders, may be in the form of cash and/or notes and/or Imasco common shares (to a maximum of 1,315,117 shares, representing approximately \$35 million as at December 31, 1995). The cash requirement for the acquisition will be funded principally by borrowings under the company's credit facilities.

Anticipated proceeds on the disposition of Roy Rogers restaurants, less any payments required as a result of the closure of the FFM plant in Rocky Mount, North Carolina, the workforce reduction program, lease terminations, and restaurant divestitures, will benefit cash flow in 1996.

In 1996, Imasco expects internally generated cash flows to be sufficient to fund its cash requirements for operations, capital asset additions, dividends, and further common share repurchases. In addition, Imasco's unused credit facilities and debt-issuance capabilities will enable it to meet requirements for long-term debt maturities, the acquisition of Big V, and other cash requirements that may arise.

Management Report

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Imasco Limited and its subsidiaries, and all information in the annual report, are the responsibility of management and have been reviewed and approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Imasco and its subsidiaries has developed and continues to maintain systems of internal accounting controls, including policies and procedures, and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from material loss or unauthorized use, transactions are authorized, recorded, and reported properly, and the financial records are reliable for preparing the financial statements. The internal accounting control systems are augmented by a program of internal audits, training of qualified personnel, a Code of Business Conduct and Conflicts of Interest Policy, and appropriate reviews by management.

The Board of Directors carries out its responsibility for oversight and approval of the financial statements and other financial information in this annual report, principally through its Audit Committee. The Audit Committee meets periodically with man-

agement and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls, and to review and discuss the financial statements and financial reporting matters. Additional responsibilities and the composition of the Audit Committee are detailed in the Statement of Corporate Governance Practices contained in Imasco's management proxy circular relating to the Annual Shareholders' Meeting on May 1, 1996.

The financial statements have been audited by Deloitte & Touche, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.



Brian Levitt
President and Chief Executive Officer



Raymond E. Guyatt, C.A.
Executive Vice-President and
Chief Financial Officer



Denis Faucher, C.A.
Vice-President and Controller

January 25, 1996

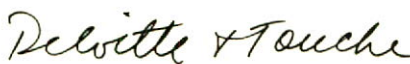
Auditors' Report

To the Shareholders of Imasco Limited

We have audited the consolidated balance sheets of Imasco Limited as at December 31, 1995, 1994, and 1993, and the consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995, 1994, and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Montréal, Canada

January 25, 1996

Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and all amounts are in Canadian dollars unless otherwise stated.

Basis of presentation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Investments in unincorporated joint ventures are accounted for by the proportionate consolidation method of accounting. All subsidiaries of the Corporation are 100% directly or indirectly owned except as follows: The Corporation indirectly owns approximately 98% of the common shares of CT Financial Services Inc. (CT Financial Services). CT Financial Services indirectly owns approximately 99% of the common shares of First Federal Savings and Loan Association of Rochester (First Federal) and directly owns approximately 85% of the common shares of CT Securities Services Inc. (CT Securities), formerly Meridian Securities International Limited.

Change in accounting policy

Effective January 1, 1995, the Corporation adopted, on a retroactive basis, the new recommendations of The Canadian Institute of Chartered Accountants with respect to investments in joint ventures. As a result, the investments in joint ventures by Genstar Development Company, previously recognized using the equity method, are now accounted for using the proportionate consolidation method. Hardee's previous investment in a joint venture has also been restated retroactively. This change had no effect on net earnings, earnings per common share, or shareholders' equity of the Corporation. The amounts of total assets in 1995 and 1994 were not affected while in 1993 total assets increased \$62 million, long-term debt increased \$96 million, and deferred credits and other liabilities decreased \$34 million.

Fees – Financial Services

Fees are recorded as income over the term of the loan, or when the service is provided.

License and service fee income

Initial license fees (Restaurant segment) are recognized as income upon the opening of a licensed restaurant. Continuing service fees (Restaurant and Drugstore segments) are recognized as income as a variable percentage of sales of licensed restaurants and associate drugstores.

Sale of development land

Income is recognized in the period in which the transaction occurs, provided the collectibility of sales proceeds is reasonably assured and all material conditions are met, including a cash down payment of not less than 15%.

Inventories

Raw materials and supplies are valued at the lower of average cost and replacement cost. Finished goods and development land are valued at the lower of cost and net realizable value. Cost is determined substantially as follows: Tobacco – average cost; Restaurant – first-in, first-out; Drugstore – first-in, first-out; Land development – specific item basis (cost of development land includes the original cost of properties and the cost of services such as roads, and sewage and water systems; carrying costs such as interest and property taxes are not capitalized).

Notes receivable, investments, and other

Notes receivable are stated at their estimated net realizable value. Securities are stated at cost and are written down to reflect impairments in value that are other than temporary. Deferred charges are stated at cost, less accumulated amortization calculated on a straight-line basis.

Capital assets

Capital assets are accounted for at cost. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from ten to 40 years for buildings and from one to 20 years for equipment. The cost of leasehold improvements and property under capital leases is amortized on a straight-line basis over the lesser of the estimated useful lives of the assets and the term of the lease. Favourable leases (the fair market value allocated to leases acquired in a business acquisition with terms favourable to prevailing market conditions) are amortized on a straight-line basis over the term of the lease.

Goodwill

Goodwill and related costs arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives, not exceeding 40 years.

Amortization of goodwill arising from the initial acquisition of CT Financial Services and the Corporation's operating companies, and from significant business acquisitions thereafter, is classified separately in the Consolidated Statements of Earnings as "Amortization of acquisition goodwill." Amortization of goodwill arising from minor business acquisitions by the Corporation's operating companies is reported under the caption "Operating costs."

Goodwill and related costs arising from acquisitions are written down to estimated fair value to reflect permanent impairments in value, which are evaluated based upon undiscounted expected future cash flows of the respective subsidiary.

Investments – Financial Services

Investments, which are reduced by an allowance for investment losses where applicable, and investment income are stated as follows:

Securities

Bonds, debentures, and mortgage-backed securities are stated at amortized cost plus accrued interest. Stocks, other than debt substitutes, are stated at cost plus dividends receivable. Any impairment in underlying value that is other than temporary is recorded as a charge to earnings in the year in which it occurs. Debt substitutes are stated at cost, plus dividends receivable, less provisions established to recognize diminution in market value, and are accorded the accounting treatment applicable to loans. The company does not engage in securities trading activities.

Loans

Mortgages are stated at cost, including capitalized and accrued interest, less repayments and unamortized mortgage discounts. Mortgage discounts are amortized over the term of the mortgage. Consumer and collateral loans, corporate and commercial loans, and credit card receivables are stated at cost, including accrued

Summary of Significant Accounting Policies

interest, less repayments. Receivables under equipment leases are stated at gross rentals receivable, net of unearned income. Unearned income is reflected in earnings over the term of the lease. Earned income is accrued on a daily basis.

Real estate investment properties

Investment properties are stated at the lower of cost less accumulated amortization and estimated net recoverable amount. Cost includes the original cost of properties and carrying costs incurred during development. Leasing costs are deferred and amortized on a straight-line basis over the initial lease term. Administrative expenses are not capitalized. Buildings are amortized on a 5% sinking fund basis over periods of 30 and 50 years. Real estate acquired in settlement of loans is stated at a value that does not exceed estimated net realizable value.

Non-performing investments

Included in each investment category are non-performing investments. They consist of securities on which interest or preferred dividend payments have been suspended, loans in arrears, credit card receivables on which interest accrual has been suspended, and restructured and reduced rate loans. In addition, management of CT Financial Services may, at any time, classify a loan as non-performing if there is evidence of deterioration in the borrower's financial condition. Once loans are classified as non-performing, revenue is recognized only as collected, unless it is virtually certain that accrued interest will be collected.

Allowance for investment losses

The allowance for investment losses consists of two parts, a specific allowance and a general allowance, in accordance with the loan loss provisioning guidelines issued by the Superintendent of Financial Institutions. The two parts are calculated as: 1) a specific allowance for individual investments to reduce carrying value to estimated realizable value and 2) a general allowance based on a historical five-year net loss experience ratio for each of mortgages, consumer and collateral loans, corporate and commercial loans, and credit card receivables, and on economic conditions and other factors which, in management's judgment, deserve recognition. Each investment category has been reduced by the applicable portion of the allowance for investment losses. Allowance for derivative financial instruments, if any, is recorded in other liabilities. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote.

Servicing rights – Financial Services

Purchased servicing rights are capitalized and amortized proportionately over the period of estimated servicing income. Capitalized mortgage servicing rights on mortgages sold as mortgage-backed securities are amortized over the estimated life of the mortgages. The estimated present value of the interest to be retained on mortgages sold, net of normal servicing fees, is recognized as earnings when the sale occurs.

Derivative financial instruments

Financial Services

Interest rate swaps, interest rate options, forward rate agreements, foreign exchange contracts and options on Eurodollar

futures contracts are entered into to manage interest rate and foreign currency exposures. The company does not enter into contracts as an intermediary to earn fee income and does not trade in such contracts. Interest income resulting from option transactions is accrued and recorded as a reduction of financial services interest expense. Premiums paid for, or gains and losses realized on early termination of derivative financial instruments are recorded in other assets in the consolidated balance sheets and are amortized to financial services interest expense over the term of the underlying securities. Interest income or expense resulting from swap transactions is accrued and recorded as an adjustment to financial services interest expense.

Other

The Corporation, outside of its financial services operations, has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate or foreign currency risks. The Corporation enters into fixed interest rate swaps to manage exposure to movement in interest rates. The amounts receivable or payable under these swaps are accrued and recorded as an adjustment to interest expense. In addition, the Corporation enters into foreign exchange transactions to buy or sell U.S. currency. The contracts serve to protect the Corporation from significant fluctuations in the currencies. The transactions are recorded at the rate specified under the contracts on the date of the execution. Gains or losses resulting from these hedging transactions are deferred and included as a separate component of shareholders' equity.

Translation of foreign currencies

Foreign currency assets and liabilities are translated into Canadian dollars at the year-end rate of exchange, and revenues and expenses are translated at the rate in effect at the time of the transaction. Gains and losses on foreign currency transactions are included in earnings.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at average rates of exchange for the year. Gains and losses resulting from the translation of the financial statements of these operations, net of hedging activities and related income taxes, are deferred and included as a separate component of shareholders' equity.

For balance sheet purposes, amounts in U.S. dollars have been translated into Canadian dollars at the rate of exchange in effect at year-end as follows: December 31, 1995 – US \$1 = Cdn \$1.365; December 31, 1994 – US \$1 = Cdn \$1.403; December 31, 1993 – US \$1 = Cdn \$1.324.

Comparative amounts

Certain comparative amounts have been restated to reflect the change in accounting policy with respect to investments in joint ventures (refer to Summary of Significant Accounting Policies – Change in accounting policy), the presentation of discontinued operations related to the sale of The UCS Group (refer to Note 22 on page 57), the subdivision of the common shares on a two-for-one basis on May 15, 1995, as well as other changes in presentation adopted for the current year.

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31

In millions of dollars, except earnings per common share

	1995	1994	1993
Consolidated Statements of Earnings			
Revenues	9,886	9,227	9,470
Tobacco taxes and duties	1,245	1,251	1,709
Revenues, net of tobacco taxes and duties	8,641	7,976	7,761
Operating costs	4,674	4,584	4,567
Financial services interest expense (Note 17)	2,751	2,205	2,271
Special charge (Note 18)	325	—	—
Earnings from operations	891	1,187	923
Amortization of acquisition goodwill	55	55	55
Other costs and administration	51	56	46
Operating earnings, net	785	1,076	822
Interest expense (Note 19)	162	183	181
Earnings before income taxes and non-controlling interest	623	893	641
Provision for income taxes (Note 20)	313	299	195
Provision for tobacco surtaxes	47	39	—
Dividends on preference shares of subsidiary companies and non-controlling interest (Note 21)	42	40	34
Net earnings from continuing operations	221	515	412
Discontinued operations (Note 22)	—	(9)	(3)
Net earnings	221	506	409
Net earnings attributed to			
Preference shares	9	11	20
Common shares	212	495	389
	221	506	409
Earnings per common share (Note 18)			
Continuing operations	\$0.91	\$2.13	\$1.64
Net earnings	\$0.91	\$2.09	\$1.63

	1995	1994	1993
Consolidated Statements of Retained Earnings			
Beginning of year	2,347	2,113	1,907
Net earnings	221	506	409
Dividends (Note 23)	(233)	(196)	(197)
Capital transactions (Note 24)	(45)	(76)	(6)
End of year	2,290	2,347	2,113

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

December 31
In millions of dollars

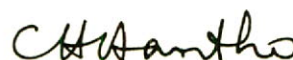
	1995	1994	1993
Assets			
Current assets			
Cash and short-term investments	71	148	221
Accounts receivable and other	356	384	416
Inventories	838	839	722
	1,265	1,371	1,359
Non-current assets			
Notes receivable, investments, and other (Note 1)	306	247	152
Capital assets (Note 6)	1,246	1,255	1,205
Goodwill	87	243	243
	1,639	1,745	1,600
	2,904	3,116	2,959
Financial Services			
Investments			
Cash and short-term notes	3,202	3,574	3,148
Securities (Note 5)	7,399	6,892	7,003
Loans (Note 2)	39,589	37,017	34,466
Real estate investment properties (Note 7)	890	945	967
Capital assets and other (Note 8)	836	702	548
Goodwill	1,284	1,330	1,378
	53,200	50,460	47,510
Total assets	56,104	53,576	50,469
Liabilities and shareholders' equity			
Current liabilities			
Bank and other short-term loans	54	71	92
Accounts payable and other	693	680	663
Income, excise, and other taxes	139	219	149
	886	970	904
Long-term debt (Note 9)	1,781	1,927	1,992
Deferred credits and other liabilities (Note 10)	145	145	155
Financial Services			
Deposits (Note 11)	44,557	42,442	40,420
Borrowings and other liabilities (Note 12)	4,956	4,099	3,239
Deferred income taxes	58	66	73
Preference shares of subsidiary companies (Note 15)	410	537	540
Non-controlling interest (Note 14)	47	53	46
	50,028	47,197	44,318
Shareholders' equity			
Capital stock (Note 16)	937	930	967
Unrealized gain on foreign currency translation	37	60	20
Retained earnings	2,290	2,347	2,113
	3,264	3,337	3,100
Total liabilities and shareholders' equity	56,104	53,576	50,469

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Approved by the Board,



Brian Levitt,
Director



Charles H. Hantho,
Director

Consolidated Statements of Changes in Financial Position

For the years ended December 31

In millions of dollars

	1995	1994	1993
Operating activities			
Net earnings from continuing operations	221	515	412
Items not affecting cash			
Special charge (Note 18)	325	—	—
Amortization (Note 33)	350	342	326
Provision for investment losses	127	140	205
Other items	(11)	11	5
Earnings adjusted for non-cash items	1,012	1,008	948
Changes in non-cash current assets and liabilities (Note 25)	(86)	6	17
Increase in other liabilities	—	24	24
Investment losses and write-offs, net of recoveries	(122)	(124)	(199)
Cash from continuing operations	804	914	790
Discontinued operations	(7)	8	8
Cash from operating activities	797	922	798
Investing activities			
Additions to capital assets	(335)	(179)	(161)
Proceeds from disposals of capital assets	16	70	16
Proceeds from business disposal (Note 22)	20	—	—
Acquisition of interest in real estate joint venture (Note 27)	—	(28)	—
Changes in notes receivable, investments, and other	(115)	(74)	20
Financial Services			
Changes in investments			
Cash and short-term notes	372	(426)	(56)
Securities and other investments	(458)	148	(408)
Loans	(2,576)	(2,594)	(1,392)
Net additions to capital assets	(116)	(95)	(116)
Changes in other assets and liabilities	76	(23)	45
Cash used for investing activities	(3,116)	(3,201)	(2,052)
Financing activities			
Issue of long-term debt	237	193	327
Repayment of long-term debt	(361)	(414)	(412)
Redemption of preference shares	—	(21)	(200)
Issue (repurchase) of common shares, net	(36)	(92)	2
Dividends (Note 23)	(233)	(196)	(197)
Financial Services			
Increase in deposits	2,115	2,022	1,239
Increase in borrowings	667	733	328
Redemption of non-controlling interest preference shares	(277)	(3)	(2)
Issue of shares to non-controlling interests, and other capital transactions	147	5	214
Cash from financing activities	2,259	2,227	1,299
Cash and cash equivalents			
Increase (decrease) for the year	(60)	(52)	45
Beginning of year	77	129	84
End of year	17	77	129
Cash and short-term investments	71	148	221
Bank and other short-term loans	(54)	(71)	(92)
	17	77	129

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31
In millions of dollars

1. Notes receivable, investments, and other

	1995	1994	1993
Notes receivable ¹	83	93	70
Securities ²	139	75	20
Deferred income taxes	23	24	—
Deferred charges ³	17	14	21
Other	44	41	41
	306	247	152

¹ Includes notes receivable from restaurant licensees and drugstore associates of \$65 million (1994 – \$79 million; 1993 – \$60 million).

² Market value amounted to \$144 million at December 31, 1995 (1994 – \$72 million; 1993 – \$20 million).

³ Amortization of deferred charges amounted to \$2 million during 1995 (1994 – \$11 million; 1993 – \$6 million).

2. Loans – Financial Services

	1995	1994	1993
Mortgages – residential	27,663	25,929	23,672
Mortgages – commercial	2,401	2,846	3,214
Consumer and collateral	7,520	6,209	5,332
Corporate and commercial	747	1,035	1,382
Credit card receivables	884	611	450
Receivables under equipment leases	374	387	416
	39,589	37,017	34,466

3. Non-performing investments – Financial Services

Included in each investment category are the following non-performing investments:

	1995	1994	1993
Loans			
Mortgages – residential	100	69	145
Mortgages – commercial	94	104	130
Corporate and commercial	127	170	174
Other	20	38	43
Securities	2	13	35
Real estate acquired in settlement of loans	125	115	107
Non-performing investments	468	509	634
Allowance for investment losses (Note 4)	(375)	(372)	(350)
Net non-performing investments	93	137	284

4. Allowance for investment losses – Financial Services

	1995	1994	1993
Beginning of year	372	350	342
Provision charged to earnings	127	140	205
Foreign exchange adjustment	(2)	6	2
Investment losses and write-offs, net of recoveries	(122)	(124)	(199)
End of year	375	372	350

The apportionment of the allowance for investment losses is summarized below:

	1995	1994	1993
Loans			
Mortgages – residential	50	46	64
Mortgages – commercial	73	92	69
Corporate and commercial	148	136	100
Other	44	37	35
Securities	17	23	43
Real estate acquired in settlement of loans	43	38	39
	375	372	350
Specific allowance	141	177	194
General allowance	234	195	156
	375	372	350

The Canadian Institute of Chartered Accountants has established a new standard for accounting for impaired loans. This change in generally accepted accounting principles is effective January 1, 1996.

Replacing previous standards, the new standard requires that the value of impaired loans be reduced to the present value of expected future cash flows from the loan, discounted at the interest rate inherent in the loan or, in the absence of such information, to the fair value of the underlying security or an observable market price for the loan.

Upon adoption, on January 1, 1996, the allowance for investment losses will be increased by \$73 million, and consolidated retained earnings will be reduced by \$40 million, net of income taxes of \$32 million and non-controlling interest of \$1 million.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

5. Securities – Financial Services

	1995		1994		1993	
	Stated value	Market value	Stated value	Market value	Stated value	Market value
Bonds and debentures						
Canada	4,307	4,353	2,929	2,912	2,495	2,498
Provincial	213	216	396	395	663	678
Corporate	103	103	179	178	210	211
Foreign governments	419	424	412	408	485	486
	5,042	5,096	3,916	3,893	3,853	3,873
Stocks						
Preference	942	960	1,181	1,181	1,228	1,300
Common	155	155	174	174	144	156
	1,097	1,115	1,355	1,355	1,372	1,456
Mortgage-backed securities						
Government insured	1,040	1,045	1,323	1,261	1,405	1,422
Other insured	220	220	298	293	373	375
	1,260	1,265	1,621	1,554	1,778	1,797
	7,399	7,476	6,892	6,802	7,003	7,126

6. Capital assets

	1995	1994	1993
Land	228	184	143
Buildings	575	514	437
Equipment	1,140	1,061	1,025
Leasehold improvements	511	539	561
Favourable leases	44	73	79
Property under capital leases	17	19	22
	2,515	2,390	2,267
Accumulated amortization	(1,269)	(1,135)	(1,062)
	1,246	1,255	1,205

Accumulated amortization is summarized below:

	1995	1994	1993
Buildings	206	130	142
Equipment	718	692	623
Leasehold improvements	310	262	248
Favourable leases	25	41	37
Property under capital leases	10	10	12
	1,269	1,135	1,062

Amortization expense is summarized below:

	1995	1994	1993
Buildings	28	17	17
Equipment	106	107	100
Leasehold improvements	38	38	41
Favourable leases	6	8	9
Property under capital leases	1	1	1
	179	171	168

The net book value of capital assets, other than land, not being amortized amounted to \$107 million at December 31, 1995 (1994 – \$36 million; 1993 – \$14 million). These principally represent capital assets that are under construction or development.

7. Real estate investment properties – Financial Services

	1995	1994	1993
Land	226	242	260
Buildings	586	622	628
Leasing costs	93	86	77
	905	950	965
Accumulated amortization	(97)	(82)	(66)
	808	868	899
Real estate acquired in settlement of loans, net	82	77	68
	890	945	967

Amortization of real estate investment properties amounted to \$6 million in 1995 (1994 – \$6 million; 1993 – \$5 million). There was no interest capitalized in cost of real estate investment properties during 1995 (1994 – nil; 1993 – \$1 million).

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

8. Capital assets and other – Financial Services

	1995	1994	1993
Land	88	88	78
Buildings	216	211	200
Equipment	535	467	435
Leasehold improvements	182	166	153
	1,021	932	866
Accumulated amortization	(519)	(456)	(397)
Capital assets	502	476	469
Amount receivable from brokers, dealers, and brokerage clients	158	87	–
Purchased servicing rights	82	41	25
Capitalized servicing rights	21	33	35
Derivative premiums, gains and losses	50	52	5
Other	23	13	14
	836	702	548

Accumulated amortization is summarized below:

	1995	1994	1993
Buildings	77	70	61
Equipment	336	291	252
Leasehold improvements	106	95	84
	519	456	397

Amortization expense is summarized below:

	1995	1994	1993
Buildings	11	10	10
Equipment	66	65	61
Leasehold improvements	14	13	12
	91	88	83

9. Long-term debt

	1995	1994	1993
Term loans ¹	689	821	701
Debentures			
11.85% due February 1996	150	150	150
10½% due November 1996	200	200	200
10½% due April 1998	150	150	150
10¼% due December 2001	150	150	150
9.85% due April 2002	150	150	150
8.375% due June 2003	150	150	150
10¼% repaid 1994	–	–	28
	950	950	978
Notes payable and other			
7.4% to 10.4% medium-term notes due to 1999 ²	126	139	201
Capital lease and other obligations ¹	16	17	16
Proportionate share of joint venture debt ¹	–	–	96
	142	156	313
	1,781	1,927	1,992

¹ All or partly payable in U.S. dollars. The aggregate principal amount of long-term debt payable in U.S. dollars at December 31, 1995 was \$703 million (US \$515 million), at December 31, 1994 was \$836 million (US \$596 million), and at December 31, 1993 was \$796 million (US \$602 million).

² Medium-term notes carried a weighted average interest rate of 8.0% at December 31, 1995 (1994 – 10.0%; 1993 – 10.2%).

Term loans consisting of unsecured notes, some of which mature within one year, are supported by committed bank term credit facilities consisting of a revolving \$956 million (US \$700 million) facility and a \$273 million (US \$200 million) facility both expiring in 2000. Under the revolving credit facility, the Corporation has an additional \$410 million (US \$300 million) available that was unused at December 31, 1995 and expires in 1996. Term loans outstanding at December 31, 1995 carried a weighted average interest rate of 6.3% (1994 – 6.8%; 1993 – 4.4%).

The Corporation has entered into fixed interest rate swaps to manage exposure to changes in variable interest rates. Interest payments on US \$175 million floating rate term loans have effectively been converted through swaps to fixed interest rates of approximately 6.3% with terms ending between 1996 and 2000. At December 31, 1995, the swaps had a negative fair market value of \$4 million. All of the above were contracted with financial institutions rated AA or better.

The Corporation has entered into foreign exchange forward transactions to sell US \$230 million into Canadian \$314 million during the first quarter of 1996. At December 31, 1995, the forward contracts had a favourable fair market value of \$0.4 million. All of the above were contracted with a financial institution rated AA.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

9. Long-term debt (continued)

Capital lease obligations amounted to \$11 million at December 31, 1995 (1994 – \$13 million; 1993 – \$14 million) and expire on various dates to 2010. The aggregate minimum commitment under such leases totalled \$23 million at December 31, 1995 (1994 – \$28 million; 1993 – \$30 million).

Long-term debt maturities over the next five years are estimated as follows: 1996 – \$360 million; 1997 – \$4 million; 1998 – \$218 million; 1999 – \$51 million; 2000 – \$690 million. Maturities in 1996 are expected to be refinanced through existing committed long-term credit facilities and have therefore been classified as long-term debt.

10. Deferred credits and other liabilities

	1995	1994	1993
Deferred gain	10	11	39
Deferred income taxes	–	–	9
Other liabilities	135	134	107
	145	145	155

The 1995 and 1994 deferred gain amounts arose from a 1988 sale and leaseback transaction in which the land and buildings of 101 restaurant properties were sold to a third party and leased back for an initial minimum period of 15 years. The deferred gain, which amounted to \$12 million at December 31, 1993, is being amortized over the term of the lease. The lease is accounted for as an operating lease.

A second sale and leaseback transaction was completed during 1988 in which the land and buildings of 279 restaurants were sold to a joint venture formed by a subsidiary of the Corporation and a third party and were subsequently leased back. The gain resulting from this transaction was deferred. In April 1994, the subsidiary purchased the 50% remaining interest in the joint venture, which resulted in the elimination of the unamortized deferred gain balance. Refer to Note 27 on page 58 for additional details concerning the acquisition.

11. Deposits – Financial Services

	1995	1994	1993
Demand	20,591	20,459	20,802
Term	23,966	21,983	19,618
	44,557	42,442	40,420

Canada Trustco Mortgage Company (Canada Trustco), a wholly owned subsidiary of CT Financial Services, issued \$500 million 99-year term deposit receipts maturing September 20, 2089 with interest payable at 12.75% per annum. Subsequent to issue, interest coupons payable in years 11 through 99 were purchased and cancelled. The present value of these coupons of \$274 million (1994 – \$242 million; 1993 – \$213 million) is offset against the deposit receipts of \$518 million (including accrued interest) included in deposits in the consolidated balance sheets as of December 31, 1995, 1994, and 1993; however, there is no legal right of offset in the event of default.

12. Borrowings and other liabilities – Financial Services ¹

	1995	1994	1993
Advances from Federal Home			
Loan Bank 2.67% to 7.94%			
due to 2007 ²	2,351	2,124	1,869
Notes, mortgages, debentures,			
and other borrowings			
11.2% notes due to 2009 ³	28	28	28
6% to 12.75% mortgages			
due to 2012	236	246	250
Prime rate \$55 million Series A,			
convertible redeemable			
debentures due 2009	57	78	77
Variable rate \$200 million			
money market convertible			
redeemable debentures			
due 2010	201	201	201
5.71% to 5.95% securities sold			
under agreements to repur-			
chase within one year ⁴	783	703	397
7% to 8.75% securities sold			
but not yet purchased within			
one year ⁵	131	–	–
11.86% limited recourse			
loan due 2003	35	–	–
Other advances ⁶	239	216	197
	1,710	1,472	1,150
Subordinated debentures			
8.125% \$150 million Series 1,			
capital debentures			
due 2003	154	154	154
10.05% \$150 million Series 2,			
capital debentures			
due 2014	156	156	–
9.15% \$200 million Series 3,			
capital debentures			
due 2025	202	–	–
	512	310	154
Borrowings	4,573	3,906	3,173
Amounts payable to brokers,			
dealers, and brokerage clients	233	94	–
Other liabilities	150	99	66
	4,956	4,099	3,239

¹ Amounts reported include accrued interest.

² Secured by pledges of qualifying collateral, primarily mortgages. The market value of the pledged qualifying collateral is at least 110% of the amount of the advances.

³ Secured by assets with an estimated value of \$28 million.

⁴ Collateralized by mortgage-backed securities with a market value of \$744 million (1994 – \$654 million; 1993 – \$401 million).

⁵ Collateralized by Government of Canada bonds, at market value.

⁶ Represents advances from borrowers for taxes and insurance.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

12. Borrowings and other liabilities – Financial Services (continued)

Mortgages are primarily first and second real estate mortgages secured by assets with an estimated value of \$255 million at December 31, 1995 (1994 – \$268 million; 1993 – \$269 million). They also include collateralized mortgage obligations secured by pledges of Federal Home Loan Mortgage Corporation mortgage-backed certificates with a carrying value of \$12 million (1994 – \$15 million; 1993 – \$18 million).

Series A convertible debentures are convertible at any time into preference shares of Canada Trustco at either the holder's or issuer's option and redeemable at the issuer's option. The issuer's conversion and redemption privileges require the consent of the Superintendent of Financial Institutions.

Money market debentures are convertible at the issuer's option, in whole, into preference shares of CT Financial Services and at the holder's option, in whole, at any time after May 17, 2009.

Subordinated debentures represent direct unsecured obligations of Canada Trustco. They are subordinated in right of payment to the prior payment in full of the deposit liabilities and all other liabilities of that company.

Series 1 capital debentures are redeemable by Canada Trustco on or after March 12, 1998, with the consent of the Superintendent of Financial Institutions. After March 12, 1998, the debentures bear interest at the bankers' acceptance rate plus 1%.

Series 2 capital debentures are redeemable by Canada Trustco on or after August 4, 1999. The debentures are also exchangeable by the holder on or after August 4, 1999, after notice from Canada Trustco, for an equal aggregate principal amount of investment certificates or a new issue of subordinated indebtedness of Canada Trustco. Both privileges require the consent of the Superintendent of Financial Institutions.

Series 3 capital debentures are redeemable by Canada Trustco on or after May 25, 2000. The debentures are also exchangeable by the holder on or after May 25, 2000, after notice from Canada Trustco, for an equal aggregate principal amount of investment certificates or a new issue of subordinated indebtedness of Canada Trustco. Both privileges require the consent of the Superintendent of Financial Institutions.

The required principal repayments for each of the next five years are as follows: 1996 – \$2,372 million; 1997 – \$518 million; 1998 – \$619 million; 1999 – \$16 million; 2000 – \$74 million.

13. Derivative financial instruments – Financial Services

CT Financial Services enters into interest rate swap contracts, interest rate options, forward rate agreements, foreign exchange contracts, and options on Eurodollar futures contracts as a principal to manage exposure to movement in interest rates and foreign currency that may affect its assets and liabilities. These contracts are not reflected in the consolidated balance sheets. The company does not enter into contracts as an intermediary to earn fee income and does not trade in such contracts.

The main risks associated with derivative financial instruments are credit risk and market risk. These include the risk that a counterparty will default on its contractual obligations. Management of CT Financial Services monitors these risks regularly by the use of modelling and simulation techniques to ensure that limits established by policy and capital requirements are not exceeded.

Notional amount is the value upon which contracts are based. Risk-weighted value is the value of contracts, calculated in accordance with regulatory definition, against which CT Financial Services is required to maintain capital. Fair market value is the net present value of expected cash flows of all contracts. Credit exposure amount is the cost to replace contracts that have value, should the counterparty fail to meet its obligations.

	1995	1994	1993
Notional amount			
Interest rate swaps	12,475	10,300	4,401
Interest rate options	10,585	5,425	4,716
Forward rate agreements	1,780	724	–
Foreign exchange contracts	1,126	881	491
Options on Eurodollar futures contracts	4,515	14,939	2,383
	30,481	32,269	11,991
Risk-weighted value			
Interest rate swaps	41	10	11
Interest rate options	26	20	1
Forward rate agreements	–	–	–
Foreign exchange contracts	7	7	4
Options on Eurodollar futures contracts	3	7	–
	77	44	16
Fair market value			
Interest rate swaps	(32)	(24)	(227)
Interest rate options	89	117	6
Forward rate agreements	(1)	–	–
Foreign exchange contracts	(47)	(82)	(8)
Options on Eurodollar futures contracts	4	20	1
	13	31	(228)
Credit exposure amount			
AAA rated counterparties	28	3	2
AA rated counterparties	234	91	38
A rated counterparties	6	60	4
Options on Eurodollar futures contracts	4	20	1
	272	174	45

The term to maturity based upon the notional amount is as follows: less than 1 year – \$16,485 million; 1 to 3 years – \$9,696 million; 3 to 5 years – \$3,420 million; over 5 years – \$880 million.

14. Non-controlling interest

	1995	1994	1993
CT Financial Services	42	47	43
First Federal	4	4	3
CT Securities	1	2	–
	47	53	46

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars, except number of shares data

15. Preference shares of subsidiary companies – Financial Services

Issued and outstanding preference shares of subsidiary companies, all owned by third parties, are as follows:

	1995	1994	1993
CT Financial Services			
6,000,000 Non-cumulative			
redeemable perpetual first			
preference shares – series 4	150	150	150
2,000,000 Non-cumulative			
redeemable perpetual first			
preference shares – series 5	63	63	63
200 Cumulative redeemable			
perpetual first preference			
shares – series 1 ¹	–	100	100
2,000,000 Non-cumulative			
redeemable perpetual first			
preference shares – series 2 ²	–	50	50
Canada Trustco			
8,061,286 Preference shares			
(1994 – 5,388,342;			
1993 – 5,527,642)	197	124	127
Truscan Realty Limited ³			
2,000,000 Preference shares ⁴	–	50	50
	410	537	540

¹ Redeemed on December 14, 1995 at \$500,000 per share, plus accrued dividends.

² Redeemed on December 29, 1995 at \$25.125 per share, plus accrued dividends.

³ Truscan Realty Limited is an indirectly wholly owned subsidiary of CT Financial Services.

⁴ Redeemed on June 30, 1995 at \$26.45 per share, plus accrued dividends.

The dividend rate on the first preference shares – series 4 is 7.35%. The shares are redeemable on or after February 1, 2003 at \$25.00 per share plus accrued and unpaid dividends and are convertible on or after August 1, 2003, at the option of the issuer, into that number of common shares of CT Financial Services determined by dividing \$25.00 by the greater of \$2.00 and 95% of the weighted average trading price of the common shares of CT Financial Services for a defined period immediately prior to the date of conversion. CT Financial Services has the right to redeem or find a substitute purchaser for the tendered shares.

The dividend rate on the first preference shares – series 5 is 6.40%. The shares are redeemable on or after February 1, 2003 at US \$25.00 per share plus accrued and unpaid dividends and are convertible on or after August 1, 2003, at the option of the issuer, into that number of common shares of CT Financial Services determined by dividing US \$25.00 by the greater of US \$2.00 and the US dollar equivalent of 95% of the weighted average trading price of the common shares of CT Financial Services for a defined period immediately prior to the date of conversion. CT Financial Services has the right to redeem or find a substitute purchaser for the tendered shares.

16. Capital stock

Authorized:

An unlimited number of First and Second Preference Shares, issuable in series; 241,000,000 common shares.

Issued and outstanding:

	1995	1994	1993
270 6.90% Perpetual First			
Preference Shares Series D	135	135	150
1,191,888 6% Cumulative			
Preference Shares ¹	–	–	6
232,289,266 common shares ²	802	795	811
	937	930	967

Changes in issued and outstanding common shares were as follows ²:

	Shares	Amount
December 31, 1992	238,198,726	807
Issued at \$13.75 to \$19.82 on the		
exercise of stock options	363,080	5
Shares repurchased	(188,600)	(1)
December 31, 1993	238,373,206	811
Issued at \$13.82 to \$14.13 on the		
exercise of stock options	80,530	1
Shares repurchased	(4,972,400)	(17)
December 31, 1994	233,481,336	795
Issued at \$13.31 to \$20.00 on the		
exercise of stock options	874,330	14
Shares repurchased	(2,066,400)	(7)
December 31, 1995	232,289,266	802

¹ Repurchased in November 1994 at their stated value of \$4.86% each.

² Reflects the subdivision of common shares on a two-for-one basis on May 15, 1995.

The dividend rate on the First Preference Shares Series D is set at 6.90% until June 30, 1999 and thereafter can be reset through negotiation or auction procedures. Prior to July 1, 1994, the dividend rate had been set at 7.90%. The shares are redeemable at the Corporation's option at \$500,000 per share plus accrued and unpaid dividends. On June 30, 1994, 30 shares were redeemed at their stated value of \$500,000 each.

The weighted average number of outstanding common shares used in the determination of earnings per common share for 1995 was 233,538,739 (1994 – 236,871,978; 1993 – 238,303,892).

Shares repurchased represent the number and total average stated value of shares repurchased under normal course issuer bids authorized by the Corporation's Board of Directors. In July 1995, the Board of Directors authorized a normal course issuer bid to purchase up to 4,000,000 Imasco Limited common shares at the prevailing market price from August 5, 1995 to August 4, 1996. At December 31, 1995, 1,839,800 common shares had been repurchased under this issuer bid. Repurchased shares are restored to the status of authorized but unissued shares.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars, except stock option data

16. Capital stock (continued)

Under the Corporation's Stock Option Plan, options to purchase common shares of the Corporation may be granted to certain employees. Each option enables the holder to purchase one common share of the Corporation at an option price equal to the closing price per common share on The Toronto Stock Exchange on the last trading day prior to the date of the grant. The options expire not later than 10 years after the date of the grant and are generally first exercisable two years following the date of the grant. During the periods reported, exercise of the stock options would dilute earnings per common share by \$0.01 or less.

Details of the stock options outstanding were as follows ¹:

	1995	1994	1993
Outstanding, beginning of year	3,994,480	3,389,910	2,962,140
Granted	932,220	771,300	833,350
Exercised	(874,330)	(80,530)	(363,080)
Cancelled	(156,200)	(86,200)	(42,500)
Outstanding, end of year	3,896,170	3,994,480	3,389,910
Weighted average exercise price of stock options outstanding, end of year	\$19.37	\$17.48	\$17.30

¹ Reflects the subdivision of common shares on a two-for-one basis on May 15, 1995.

17. Financial services interest expense

	1995	1994	1993
Demand deposits	670	523	553
Term deposits	1,774	1,413	1,493
Advances from Federal Home Loan Bank	137	105	79
Notes, mortgages, and debentures	47	41	44
Other borrowings	52	25	12
Subordinated debentures	39	19	10
Net expense on derivative financial instruments	32	79	80
	2,751	2,205	2,271

18. Special charge

On December 15, 1995, Hardee's Food Systems announced its intention to sell the Roy Rogers restaurant chain. On the same date, Hardee's also announced the closure of FFM's Rocky Mount, North Carolina plant, a 10% reduction in the workforce at Hardee's and FFM's head offices, and the divestiture of certain underperforming Hardee's restaurants. These actions resulted in a special charge of \$325 million (US \$239 million), or \$1.39 per common share, against fourth-quarter 1995 earnings. The special charge includes a write-off of Roy Rogers goodwill of \$148 million (US \$109 million), a write-down of Roy Rogers capital assets of \$106 million (US \$78 million), a write-off of other long-term assets of \$11 million (US \$8 million), provisions for lease terminations and restaurant divestitures of \$28 million (US \$21 million), and provisions for severance and other costs of \$32 million (US \$23 million). The write-down to the estimated net realizable value of Roy Rogers assets reflects agreements for the sale of 59 restaurants in the New York area for proceeds of approximately US \$23 million. Discussions are taking place with potential buyers for the remaining 188 company-operated restaurants in the chain. It is expected that the sale of the Roy Rogers restaurants will be completed by the end of 1996, and payments for lease terminations and restaurant divestitures will be substantially completed by that time. The plant closure is scheduled for February 15, 1996, and severances under the workforce reduction program will be paid in 1996.

The special charge has been recorded without the benefit of a tax recovery as it is not virtually certain that the future tax benefits will be realized. The unrecorded amount of the tax benefit is \$101 million (US \$74 million), which can be carried forward for 15 years.

Excluding the special charge, the Corporation's earnings per common share in 1995 would have been \$2.30.

19. Interest expense

	1995	1994	1993
Interest on long-term debt	170	168	185
Premium on debt redemption	-	14	-
Interest on capital leases	2	2	2
Other interest, net	(10)	(1)	(6)
	162	183	181

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars, except tax rate data

20. Income taxes

The effective income tax rate varies from year to year due to factors such as changes in statutory income tax rates, the imposition of temporary surtaxes, variations in special tax incentives made available under tax legislation and differences in the extent to which they may be claimed, and differences in the geographic and industrial mix of earnings.

The principal factors causing the difference between the effective income tax rate and the combined federal and provincial tax rate in Canada are as follows:

	1995	1994	1993
Combined federal and provincial income tax rate	42.0%	41.7%	41.9%
Tax exempt investment income	(3.5)	(4.2)	(4.8)
Non-deductible goodwill amortization	2.1	2.2	3.1
Foreign income taxed at lower rates	(4.1)	(4.6)	(6.6)
Manufacturing and processing allowances	(3.6)	(3.4)	(2.7)
Other items	0.1	1.8	(0.4)
Effective income tax rate, excluding special charge	33.0%	33.5%	30.5%
Special charge not tax affected (Note 18)	17.1	—	—
Effective income tax rate	50.1%	33.5%	30.5%

The components of the provision for income taxes are as follows:

	1995	1994	1993
Current	333	304	214
Deferred	(20)	(5)	(19)
	313	299	195

21. Dividends on preference shares of subsidiary companies and non-controlling interest

	1995	1994	1993
Dividends on preference shares of CT Financial Services and its subsidiaries	36	36	31
Non-controlling interest in CT Financial Services' net earnings	6	4	3
	42	40	34

22. Discontinued operations

On September 5, 1995, the Corporation completed the sale of The UCS Group. The transaction generated proceeds of \$20 million, which approximated the book value of the net assets sold. The UCS Group reported break-even results in 1995 prior to its disposal.

The results of The UCS Group are presented separately in the consolidated statements of earnings, under the discontinued operations caption. The assets and liabilities of The UCS Group as at December 31, 1994 and 1993 are included in the Corporation's Consolidated Balance Sheets as previously reported (refer to Note 33 on page 61).

The results for The UCS Group prior to its sale are summarized below:

	1995	1994	1993
Revenues	105	161	214
Operating costs	105	177	220
Loss from operations	—	(16)	(6)
Recovery of income taxes	—	(7)	(3)
Net loss	—	(9)	(3)

23. Dividends

	1995	1994	1993
6.90% Perpetual First Preference Shares Series D	9	11	12
7.375% Retractable First Preference Shares Series C	—	—	8
6% Cumulative Preference Shares ¹	—	—	—
Common shares	224	185	177
	233	196	197

¹ These shares were repurchased in November 1994. The dividend paid amounted to \$348,000 for 1994 and 1993.

The attributes of the Series D Preference Shares provide that no dividends may be declared, paid, or set apart for payment on the common shares unless all dividends payable on such preference shares have been declared and paid, or set apart for payment.

The Board of Directors of the Corporation has no fixed policy with respect to the payment of dividends on the Corporation's common shares. However, the Corporation has declared and paid dividends on its common shares every year since its inception.

Refer to Note 16 on page 55 for details of changes in the number of issued and outstanding preference and common shares.

24. Capital transactions

	1995	1994	1993
Cost of common shares repurchased in excess of stated value	43	76	3
Cost of issuing securities by a subsidiary, net of tax	2	—	3
	45	76	6

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

25. Changes in non-cash current assets and liabilities

Changes in non-cash current assets and liabilities relating to operations were as follows:

	1995	1994	1993
Decrease (increase) in current assets			
Accounts receivable and other	29	39	3
Inventories	(20)	(132)	21
Increase (decrease) in current liabilities			
Accounts payable and other	(19)	31	4
Income, excise, and other taxes	(76)	68	(11)
	(86)	6	17

26. Subsequent event

In October 1995, Imasco entered into an agreement to acquire Big V Pharmacies Co. Limited (Big V), a chain consisting of 135 drugstores, primarily in southwestern Ontario. The share purchase offer will be conditional upon receiving at least 90% of the outstanding shares. Assuming this condition is met, the transaction is expected to close during the first quarter of 1996. The total consideration is expected to be approximately \$243 million payable, at the election of Big V shareholders, in cash and/or notes and/or Imasco Limited common shares. A maximum of 1,315,117 Imasco Limited common shares is issuable under the offer, having a value of approximately \$35 million at December 31, 1995.

27. Business acquisition

In April 1994, Hardee's Food Systems purchased the 50% remaining interest in a joint venture holding the land and buildings of 279 Hardee's restaurants, for a cash consideration of \$28 million (US \$20 million). The joint venture was created in 1988 as part of a sale and leaseback transaction, and Hardee's investment therein prior to the acquisition is reflected under the proportionate consolidation method of accounting. The effect of the acquisition, which was recorded at fair value, was to increase capital assets by \$111 million and long-term debt by \$110 million. The remaining \$27 million unamortized balance of the deferred gain on the 1988 transaction was eliminated.

Subsequent to the acquisition, available cash resources were used to redeem the joint venture debt assumed. The acquisition was accounted for by the purchase method of accounting, and earnings have been recorded from the date of acquisition.

28. Retirement benefits

Pension benefits are available to substantially all full-time employees under the Corporation's registered defined benefit plans, except for Hardee's Food Systems which, effective January 1, 1995, elected to sponsor defined contribution plans

for full-time employees in its restaurant division. The pension benefits to December 31, 1994, under the previous defined benefit plans, were vested for the affected employees and are preserved for future retirement under regular pension commencement rules at normal or early retirement. Employees in the manufacturing and distribution division continue to be covered by the previous defined benefit plan. The Corporation also makes supplementary retirement benefits available to certain employees under unregistered plans. Employees of CT Financial Services and First Federal are covered by separate pension plans, as described in Note 29 on page 59.

The registered defined benefit pension plans are funded through contributions based on actuarial cost methods as permitted by pension regulatory bodies. Earnings are charged with the cost of benefits earned by employees as services are rendered. Benefits under the defined benefit plans are based on the employee's years of service and final average pay. The projected benefit obligations were determined using assumed discount rates ranging from 7¼% to 8% (1994 – 8% to 8¼%; 1993 – 7¼% to 8%) and assumed increases in compensation rates ranging from 4¼% to 5% (1994 and 1993 – 4¼% to 6%). The assumed long-term rates of return on assets ranged from 7¼% to 8% (1994 – 8% to 8¼%; 1993 – 7¼% to 8%).

The Corporation has immunized itself against the impact of future changes in interest rates on the majority of the assets and the projected benefit obligation of approximately \$209 million related to Canadian retirees. Both the assumed discount rate used to project this obligation and the assumed rate of return on the related assets were 9.65%.

The status of the Corporation's defined benefit pension plans was as follows:

	1995	1994	1993
Plan assets at market related value	607	632	577
Projected benefit obligations	631	633	598
Plan assets less than projected benefit obligations	(24)	(1)	(21)
Projected benefit obligations for supplementary retirement benefits ¹	82	73	69
Pension expense ²	29	32	31

¹ Represents unfunded obligations which, under the Canadian plan, are secured by an irrevocable letter of credit in the amount of \$63 million.

² Includes the cost of both registered and supplementary benefits.

Pension expense under the defined contributions plans amounted to \$7 million in 1995.

The Corporation provides limited health benefits for eligible employees upon retirement. During 1995, these costs were approximately \$4 million (1994 and 1993 – \$3 million). In Canadian operations, the cost of these benefits is expensed as incurred, while in U.S. operations, cost is determined on an accrual basis in accordance with U.S. reporting requirements.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

29. Retirement benefits – Financial Services

Pension benefits are available to all Canadian employees of CT Financial Services under the company's contributory pension plan. The plan consists of a defined benefit section and a money purchase section. Earnings are charged with the cost of benefits earned by employees as services are rendered for both sections of the plan.

The pension plan for Canadian employees has been valued based upon the following assumptions: 8½% average annual investment return and 6½% average annual increase in compensation rates.

The status of CT Financial Services' pension plan was as follows:

	1995	1994	1993
Plan assets at market value	370	324	332
Projected benefit obligations			
Defined benefit section	213	213	210
Money purchase section	142	122	115
	355	335	325
Plan assets in excess of (less than) projected benefit obligations	15	(11)	7
Pension expense	11	11	11

Employees of First Federal are covered by separate non-contributory pension plans, which offer comparable benefits and are funded by First Federal. The plans were fully funded at December 31, 1995.

CT Financial Services provides certain health benefits for eligible Canadian employees upon retirement. The cost of these benefits is expensed as incurred. During 1995, these costs were approximately \$2 million (1994 and 1993 – \$1 million).

First Federal provides certain health benefits for eligible employees upon retirement and accounts for the cost of these benefits in accordance with U.S. reporting requirements. The amount expensed during 1995 with respect to these benefits amounted to \$1 million (1994 and 1993 – \$1 million).

30. Operating lease commitments

The Corporation has commitments with respect to real estate operating leases, which are for terms of one to 25 years.

The minimum annual commitments under such leases and the amounts assumed by drugstore associates and other third parties are approximately as detailed in the accompanying table.

	Rental commitment	Assumed by third parties	Net rental commitment
1996	237	106	131
1997	216	96	120
1998	192	86	106
1999	162	71	91
2000	117	58	59
Thereafter	424	199	225
	1,348	616	732

The minimum annual rental commitments as listed above do not reflect escalation and percentage-of-sales clauses contained in some leases. Net rentals under leases, including escalation and percentage-of-sales payments, amounted to \$108 million for the year ended December 31, 1995 (1994 – \$114 million; 1993 – \$143 million). The Corporation also has operating lease commitments for equipment for terms of one to 15 years, with a minimum annual rental of approximately \$26 million.

31. Related party transactions

B.A.T Industries p.l.c., through the ownership of 41.5% of Imasco's common shares, is defined as a related party. Transactions with B.A.T Industries p.l.c. and its subsidiaries were as follows:

	1995	1994	1993
Fees ¹	2	1	1
Export sales of leaf tobacco	24	15	19
Royalties	1	–	1

¹ Represents payment of fees for research and development, marketing, and manufacturing services.

32. Other information

a) Goodwill amortization charged to earnings during 1995 amounted to \$60 million (1994 – \$61 million; 1993 – \$60 million) and included \$5 million (1994 – \$6 million; 1993 – \$5 million) classified as operating costs.

b) A wholly owned subsidiary of the Corporation has provided guarantees to various banks in respect of certain borrowings by drugstore associates. The total amount of these guarantees at December 31, 1995 was \$135 million (1994 and 1993 – \$129 million).

c) Indirect wholly owned subsidiaries of the Corporation that operate in the Land development segment have letters of credit outstanding that guarantee completion of work under land servicing agreements and commitments under land purchase agreements. The total amount of these letters of credit at December 31, 1995 was \$35 million (1994 – \$45 million; 1993 – \$43 million).

d) During 1990, a wholly owned subsidiary of the Corporation entered into an agreement giving it the right, on an ongoing basis, to sell qualifying accounts receivable in the Tobacco segment. As at December 31, 1995, the subsidiary had sold, with a maximum credit recourse of 10%, accounts receivable for cash proceeds of \$75 million (1994 – \$50 million; 1993 – \$75 million).

e) Research and development costs charged to earnings during the year amounted to \$5 million (1994 – \$6 million; 1993 – \$5 million).

f) To encourage long-term share ownership, Imasco offers low interest loans to certain key executives. Eligible executives may receive five-year loans to purchase Imasco common shares in the open market or through the exercise of stock options. The total amount of loans that may be outstanding at any time to an executive cannot exceed the individual's annual salary. These loans are secured by the shares purchased with such loans, according to a formula, and the interest is equal to the dividends received on the pledged shares, net of the income tax payable on the dividends. The carrying amount of outstanding share purchase loans at December 31, 1995 was \$1 million (1994 – \$2 million; 1993 – \$1 million).

g) The Corporation and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business which are not expected to have a significant impact on the Corporation, either individually or in the aggregate.

In addition, certain subsidiaries acquired in 1986 as part of the acquisition of Genstar Corporation are subject to numerous claims and suits, most of which are asbestos-related. Certain of these claims and suits allege significant damage. Substantially all of the expenses incurred in connection with the defense of asbestos-related claims and suits have been covered by insurance proceeds. Furthermore, in order to supplement the substantial established coverage already in place, these subsidiaries have instituted lawsuits seeking to establish additional insurance coverage from certain carriers who have denied such coverage. Costs associated with the prosecution of the coverage lawsuits are expensed, and a portion of such costs may be recovered, should the suits succeed. In the opinion of management, all such claims and suits against these subsidiaries are adequately covered by insurance or are provided for in the financial statements or, if not so covered or provided for, the results are not expected to materially affect the Corporation's financial position.

On March 3, 1995, Imperial Tobacco Limited was served with a Statement of Claim on behalf of four plaintiffs. In this suit against Imperial Tobacco and the two other major Canadian tobacco companies, the plaintiffs allege, among other things, that they are addicted to tobacco, that the defendants conspired to withhold information on addiction and manipulated levels of nicotine in tobacco to make it addictive, and that they are entitled to damages for losses said to be consequential to the alleged addiction. The plaintiffs are seeking to have the suit certified as a class action and to be awarded \$1 million each, as well as punitive damages. The scope of the purported class is unclear but could, if plaintiffs are successful in having the suit certified as a class action, involve a large but indeterminate number of people. No date has been set for plaintiffs' motion to determine whether the case will be certified as a class action. The lawsuit involves several complicated and novel questions of law and fact that will take years to resolve. The Corporation is unable to make a meaningful estimate of the amount or range of loss that might possibly result from an unfavourable result. Imperial Tobacco will vigorously defend its position, and, although the lawsuit is at a very early stage and it is difficult to predict the outcome of lawsuits, the Corporation believes that Imperial Tobacco has a number of valid defenses.

h) Under pending United States legislation is a proposed one-time special assessment to recapitalize the Savings Association Insurance Fund. The amount of this assessment is estimated to be \$26 million, net of income taxes. Since there is no assurance that this legislation will be enacted, no accrual for this potential obligation has been recorded. The assessment will be charged to First Federal's earnings when the legislation is enacted. If this assessment is enacted, future rates for deposit insurance paid in the United States will be significantly reduced.

Notes to the Consolidated Financial Statements

For the years ended December 31

In millions of dollars

33. Segmented financial information

Financial information is presented according to the following industry segments:

Tobacco – Imperial Tobacco: manufactures tobacco products.

Financial Services – CT Financial Services: provides a variety of financial intermediary and fiduciary services. A subsidiary, First Federal, provides financial intermediary and asset management services in the United States.

Restaurant – Hardee's Food Systems: operates and licenses quick-service restaurants, primarily in the United States. A wholly owned subsidiary, Fast Food Merchandisers, processes food and distributes food and paper products, primarily in the United States.

Drugstore – Shoppers Drug Mart: licenses retail operations which specialize in prescription and non-prescription drugs, health and beauty aids, and a broad mix of consumer products.

Land development – Genstar Development Company: conducts wholly owned and joint venture land development activities in Canada and the United States.

Other – Corporate activities.

Discontinued operations – Represents The UCS Group, which was sold in September 1995 (refer to Note 22 on page 57).

U.S. operations include the Restaurant segment, First Federal, U.S. land development, and certain other activities.

	1995	1994	1993
Revenues, net of tobacco taxes and duties			
Tobacco	1,407	1,335	1,151
Financial Services	4,456	3,754	3,703
Restaurant	2,517	2,609	2,625
Drugstore	192	193	181
Land development	69	85	101
	8,641	7,976	7,761
Canada	5,381	4,763	4,436
United States	3,260	3,213	3,325
	8,641	7,976	7,761
Earnings from operations			
Tobacco	645	592	462
Financial Services	427	333	232
Restaurant	27	133	96
Drugstore	96	102	100
Land development	21	27	33
Special charge (Note 18)	(325)	–	–
	891	1,187	923
Canada	1,079	971	763
United States	(188)	216	160
	891	1,187	923

	1995	1994	1993
Additions to capital assets			
Tobacco	49	31	28
Financial Services	133	99	131
Restaurant	162	94	83
Drugstore	124	54	50
	468	278	292
Amortization expense ¹			
Tobacco	22	20	20
Financial Services	103	97	88
Restaurant	114	116	119
Drugstore	49	41	36
Land development	4	2	2
Other	3	11	6
	295	287	271
Acquisition goodwill ²	55	55	55
	350	342	326
Capital assets			
Tobacco	178	151	147
Restaurant	799	900	867
Drugstore	255	176	158
Land development	4	5	5
Other	10	11	10
Discontinued operations	–	12	18
	1,246	1,255	1,205
Financial Services	502	476	469
	1,748	1,731	1,674
Total assets			
Tobacco	709	709	638
Financial Services	51,916	49,130	46,132
Restaurant	1,107	1,231	1,178
Drugstore	387	262	257
Land development	357	353	317
Other	257	285	267
Discontinued operations	–	33	59
	54,733	52,003	48,848
Goodwill	1,371	1,573	1,621
	56,104	53,576	50,469
Canada	44,501	42,266	40,354
United States	11,603	11,310	10,115
	56,104	53,576	50,469

¹ Includes amortization expense on capital assets, goodwill, deferred charges, and other fair value allocations.

² During each of the years reported, amortization of acquisition goodwill is attributable to industry segments as follows: Financial Services – \$48 million; Restaurant – \$5 million; Drugstore – \$1 million; Land development – \$1 million.

Supplementary Information

Non-consolidated Summaries of Cash Flows (unaudited)

For the years ended December 31

In millions of dollars

	1995	1994	1993
Net earnings from continuing operations	221	515	412
Deduct: CT Financial Services net earnings to common	(241)	(196)	(145)
Add: CT Financial Services dividend	269	93	93
Special charge	325	—	—
Amortization	247	245	238
Other non-cash items	19	(6)	3
Earnings adjusted for non-cash items and CT Financial Services dividend	840	651	601
Changes in non-cash current assets and liabilities	(86)	6	17
Increase in other liabilities	—	24	24
Discontinued operations	(7)	8	8
Additions to capital assets	(335)	(179)	(161)
Proceeds from disposals of capital assets	16	70	16
Proceeds from business disposal	20	—	—
Changes in notes receivable, investments, and other	(115)	(74)	20
Dividends	(233)	(196)	(197)
Net cash available	100	310	328
Acquisition of interest in real estate joint venture	—	28	—
Redemption of preference shares	—	21	200
Repurchase (issue) of common shares, net	36	92	(2)
Repayment of long-term debt, net	124	221	85
Increase (decrease) in net cash balances	(60)	(52)	45
Net cash utilized	100	310	328

Certain comparative amounts have been restated to conform with the current year's presentation.

Quarterly Consolidated Financial Information (unaudited)

In millions of dollars, except per common share data

1995	March	June	September	December	Total
System sales	3,938	4,303	4,258	4,216	16,715
Revenues	2,323	2,552	2,527	2,484	9,886
Revenues, net of tobacco taxes and duties	2,042	2,232	2,202	2,165	8,641
Earnings (loss) from operations					
Imperial Tobacco	132	158	175	180	645
CT Financial Services	94	110	108	115	427
Hardee's Food Systems	4	31	12	(20)	27
Shoppers Drug Mart	18	21	25	32	96
Genstar Development Company	3	7	1	10	21
Special charge (Note 18)	-	-	-	(325)	(325)
	251	327	321	(8)	891
Amortization of acquisition goodwill	14	14	13	14	55
Other costs and administration	14	14	11	12	51
Interest expense	43	41	40	38	162
Provision for income taxes	61	89	81	82	313
Provision for tobacco surtaxes	10	11	13	13	47
Dividends on preference shares of subsidiary companies and non-controlling interest	11	12	9	10	42
Net earnings (loss) from continuing operations	98	146	154	(177)	221
Discontinued operations	-	-	-	-	-
Net earnings (loss)	98	146	154	(177)	221
Per common share ¹					
Net earnings (loss) from continuing operations	\$0.41	\$0.61	\$0.65	(\$0.76)	\$0.91
Net earnings (loss)	\$0.41	\$0.61	\$0.65	(\$0.76)	\$0.91
Dividends	\$0.24	\$0.24	\$0.24	\$0.24	\$0.96
1994	March	June	September	December	Total
System sales	3,723	4,131	4,205	4,209	16,268
Revenues	2,129	2,351	2,384	2,363	9,227
Revenues, net of tobacco taxes and duties	1,808	2,039	2,065	2,064	7,976
Earnings from operations					
Imperial Tobacco	114	148	161	169	592
CT Financial Services	73	88	89	83	333
Hardee's Food Systems	2	47	50	34	133
Shoppers Drug Mart	20	22	26	34	102
Genstar Development Company	4	11	6	6	27
	213	316	332	326	1,187
Amortization of acquisition goodwill	13	15	13	14	55
Other costs and administration	15	14	14	13	56
Interest expense	42	55	41	45	183
Provision for income taxes	49	76	91	83	299
Provision for tobacco surtaxes	7	10	11	11	39
Dividends on preference shares of subsidiary companies and non-controlling interest	10	10	10	10	40
Net earnings from continuing operations	77	136	152	150	515
Discontinued operations	(2)	(8)	1	-	(9)
Net earnings	75	128	153	150	506
Per common share ¹					
Net earnings from continuing operations	\$0.31	\$0.56	\$0.63	\$0.63	\$2.13
Net earnings	\$0.30	\$0.53	\$0.63	\$0.63	\$2.09
Dividends	\$0.195	\$0.195	\$0.195	\$0.195	\$0.78

Certain comparative amounts have been restated to conform with the current year's presentation.

¹Amounts have been restated to reflect the subdivision of common shares on a two-for-one basis on May 15, 1995.

Selected Eleven-Year Financial Data

For the years ended December 31
In millions of dollars, except as noted

	1995	1994	1993
Operations			
System sales (unaudited) ^{2, 10}	16,715	16,268	16,242
Revenues ^{2, 10}	9,886	9,227	9,470
Revenues, net of tobacco taxes and duties ^{2, 10}	8,641	7,976	7,761
Amortization expense ²	350	342	326
Earnings from operations ^{2, 10}	891 ¹	1,187	923
Interest expense ²	162	183	181
Provision for income taxes ²	313	299	195
Provision for tobacco surtaxes	47	39	—
Earnings before extraordinary items	221 ¹	506	409
Net earnings	221 ¹	506	409
Earnings per common share			
Before extraordinary items ³	\$0.91 ¹	\$2.09	\$1.63
Net earnings ³	\$0.91 ¹	\$2.09	\$1.63
Dividend record			
On preference shares ⁴	9	11	20
On common shares	224	185	177
Per common share ³	\$0.96	\$0.78	\$0.74
Cash from continuing operations ²	804	914	790
Additions to capital assets ²	468	278	292
Financial position			
Total assets – Financial Services ^{2, 5}	51,916	49,130	46,132
Total assets ²	56,104	53,576	50,469
Long-term debt ²	1,781	1,927	1,992
Shareholders' equity			
6% Cumulative Preference Shares	—	—	6
Series D Preference Shares	135	135	150
Series C Preference Shares	—	—	—
Common shareholders ⁶	3,129	3,202	2,944
Per common share ³	\$13.47	\$13.71	\$12.35
Financial ratios			
Return on average common shareholders' equity ⁷	6.7% ¹	16.1%	13.8%
Interest coverage ratio ²	4.8x ¹	5.9x	4.6x
Debt to total capital ratio ^{2, 8}	35.3%	36.6%	39.1%
Common dividend payout ratio ⁹	105.5% ¹	37.3%	45.4%

¹ Amounts reported for 1995 reflect a special charge of \$325 million with respect to Hardee's Food Systems (refer to Note 18 on page 56). Excluding the special charge, results would have been as follows: Earnings from operations – \$1,216 million; Earnings before extraordinary items and Net earnings – \$546 million; Earnings per common share – \$2.30; Return on average common shareholders' equity – 16.1%; Interest coverage ratio – 6.9x; and Common dividend payout ratio – 41.7%.

² Certain comparative amounts have been restated to conform with the current year's presentation. (Refer to Summary of Significant Accounting Policies – Comparative amounts on page 46).

³ Prior years' amounts have been restated to reflect the subdivision of common shares on a two-for-one basis on May 15, 1995.

⁴ During the last five fiscal years, the Corporation has paid dividends on its outstanding preference shares on an annualized basis per share as follows: (1) 6% Cumulative Preference Shares – \$0.29 to November 1994, when they were repurchased; (2) Series C Preference Shares – \$1.84 from the date of issue on July 17, 1986 to the date of redemption on July 17, 1993; and (3) Series D Preference Shares, from date of issue on March 22, 1989 to June 30, 1994 – \$39,500 and from July 1, 1994 after the redemption of 30 shares – \$34,500.

⁵ Excluding goodwill.

⁶ Common shareholders' equity includes unrealized gain or loss on foreign currency translation.

⁷ Earnings before extraordinary items less dividends on preference shares as a percentage of average common shareholders' equity.

⁸ Long-term debt as a percentage of long-term debt and total equity.

⁹ Dividend per common share as a percentage of earnings per common share before extraordinary items.

¹⁰ Excludes the results of The UCS Group, which are reported separately as discontinued operations. The results of operations up to its disposition on September 5, 1995, during the last five fiscal years, were as follows:

	1995	1994	1993	1992	1991
Revenues	105	161	214	226	221
Loss from operations	—	(16)	(6)	(4)	(2)

1992	1991	1990	1989	1988	1987	1986	1985
15,986	15,287	14,750	13,044	11,541	10,725	9,000	6,494
9,684	9,600	9,374	8,223	7,078	6,564	5,346	3,232
7,717	7,688	7,629	6,733	5,922	5,454	4,303	2,288
311	288	267	237	211	178	115	91
900	892	885	947	895	772	505	408
199	234	249	234	253	207	127	37
182	182	179	202	190	164	80	126
—	—	—	—	—	—	—	—
380	332	295	366	314	283	184	262
380	332	295	366	204	254	184	262
\$1.48	\$1.28	\$1.12	\$1.43	\$1.26	\$1.12	\$0.77	\$1.20
\$1.48	\$1.28	\$1.12	\$1.43	\$0.79	\$1.00	\$0.77	\$1.20
27	27	27	24	15	15	7	—
162	152	153	134	124	114	96	78
\$0.68	\$0.64	\$0.64	\$0.56	\$0.52	\$0.48	\$0.42	\$0.36
834	765	621	509	534	609	203	420
294	241	302	407	472	450	261	124
44,265	42,188	35,087	32,666	29,219	25,515	24,078	—
48,581	46,478	39,633	37,570	34,137	30,881	29,019	2,906
2,055	2,169	2,481	2,284	2,589	2,811	2,473	602
6	6	6	6	6	6	6	6
150	150	150	150	—	—	—	—
200	200	200	200	200	200	200	—
2,702	2,457	2,322	2,213	2,013	2,007	1,889	1,483
\$11.34	\$10.32	\$9.75	\$9.28	\$8.45	\$8.42	\$7.93	\$6.81
13.7%	12.7%	11.8%	16.2%	14.9%	13.7%	10.5%	18.9%
4.0x	3.4x	3.1x	3.7x	3.2x	3.4x	3.6x	10.6x
40.2%	43.5%	48.1%	47.1%	53.8%	56.0%	54.1%	28.8%
45.8%	50.0%	56.9%	39.0%	41.4%	42.9%	54.2%	30.0%

Operating Company Statistics – Six-Year Review

For the years ended December 31
In millions of dollars, except as noted

	1995	1994	1993	1992	1991	1990
Imperial Tobacco						
Revenues ¹	2,652	2,586	2,860	3,050	2,953	2,708
Revenues, net of tobacco taxes and duties ¹	1,407	1,335	1,151	1,083	1,041	963
Earnings from operations	645	592	462	432	397	367
Inventories	440	450	353	398	392	380
Capital assets	178	151	147	140	123	125
Additions to capital assets	49	31	28	36	22	23
CT Financial Services ²						
Investment income	3,925	3,320	3,321	3,620	4,006	4,028
Provision for investment losses	127	140	205	236	115	70
Net investment income after provision for investment losses	1,047	975	845	813	842	771
Earnings from operations (pre-tax earnings)	427	333	232	252	320	318
Net earnings	267	222	166	193	222	212
Net earnings attributed to common shareholders	241	196	145	181	210	201
Per common share						
Net earnings	\$2.02	\$1.64	\$1.22	\$1.52	\$1.76	\$1.70
Dividends paid	\$2.30	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Shareholders' equity – fully diluted	\$16.17	\$16.59	\$15.57	\$15.04	\$14.11	\$13.15
Assets under administration (at book value)	196,706	182,509	160,062	135,044	124,008	103,612
Corporate assets	51,916	49,130	46,132	44,265	42,188	35,087
Loans	39,589	37,017	34,466	33,061	31,203	25,518
Deposits	44,557	42,442	40,420	39,181	37,594	32,475
Shareholders' equity	2,143	2,343	2,220	1,941	1,829	1,711
Return on average common shareholders' equity						
– fully diluted	11.8%	10.2%	7.9%	10.2%	12.8%	13.2%
Return on average corporate assets	0.53%	0.47%	0.36%	0.45%	0.56%	0.63%
Investment loss experience as a percentage of investments	0.239%	0.256%	0.437%	0.224%	0.144%	0.129%
Allowance for investment losses as a percentage						
of non-performing investments	80%	73%	55%	37%	34%	47%
Shareholders' equity and non-controlling interest						
as a percentage of total assets	4.5%	5.1%	5.2%	4.8%	4.8%	5.4%
Estimated risk-weighted capital ratios						
Tier 1 capital	8.94%	8.88%	8.59%	7.31%	7.01%	7.97%
Tier 2 capital	2.14%	2.30%	1.79%	1.13%	1.15%	1.40%
Total capital	11.08%	11.18%	10.38%	8.44%	8.16%	9.37%
Financial services branches – Canada	420	410	389	373	349	338
– United States	79	81	82	68	67	–
Automated banking machines – Canada	904	860	643	441	323	296
– United States	87	64	63	51	43	–

¹ Comparability is affected by the replacement of the Federal Sales Tax (FST) by the Goods and Services Tax (GST) effective January 1, 1991. Since the effective date, reported amounts exclude the GST, while the FST was previously included.

² Statistics presented have been extracted from CT Financial Services' annual reports for the years ended December 31, 1995 and prior. Certain comparative amounts have been restated to conform with the current year's presentation.

Operating Company Statistics – Six-Year Review

For the years ended December 31
In millions of dollars, except as noted

	1995	1994	1993	1992	1991	1990
Shoppers Drug Mart						
System sales (unaudited) ¹	3,299	3,230	3,181	3,089	2,934	2,844
Revenues	192	193	181	172	162	148
Earnings from operations	96	102	100	95	89	82
Capital assets	255	176	158	141	130	124
Additions to capital assets	124	54	50	41	31	34
Number of stores	717	689	690	678	671	645
Genstar Development Company						
Revenues ²	69	85	101	98	68	92
Earnings from operations	21	27	33	34	30	36
Land inventory ²	301	294	256	233	226	226
Land inventory (acres)	20,806	21,622	21,160	20,406	19,035	18,802
Hardee's Food Systems (in millions of US dollars, except as noted)						
System sales (unaudited)	4,548	4,838	4,957	4,753	4,376	4,146
Revenues						
Sales						
Company restaurants	940	982	1,127	1,171	1,144	1,201
Food, supplies, and other	809	829	814	701	611	569
Service and license fees	86	98	94	84	75	77
	1,835	1,909	2,035	1,956	1,830	1,847
Earnings from operations, before special charge ^{2,3}	20	97	74	71	49	71
Special charge ³	(239)	–	–	–	–	–
Inventories	54	58	60	58	56	58
Capital assets ²	585	642	654	697	739	802
Additions to capital assets	118	69	64	74	53	124
Number of restaurants						
Company-operated	1,126	1,086	1,197	1,234	1,249	1,352
Licensed	2,773	2,920	2,863	2,785	2,765	2,670
	3,899	4,006	4,060	4,019	4,014	4,022

¹ Comparability is affected by the replacement of the Federal Sales Tax (FST) by the Goods and Services Tax (GST) effective January 1, 1991. Since the effective date, reported amounts exclude the GST, while the FST was previously included.

² Comparative amounts have been restated to conform with the current year's presentation with respect to the proportionate consolidation of joint ventures.

³ Refer to Note 18 on page 56 for details of the special charge.

Imasco Limited

600 de Maisonneuve Blvd. W.
20th Floor
Montréal, QC H3A 3K7

Purdy Crawford
Chairman

Brian Levitt
President and
Chief Executive Officer

Raymond E. Guyatt
Executive Vice-President and
Chief Financial Officer

Roy R. Schwartz
Senior Vice-President

Ron Farrell
Vice-President,
Administration

Denis Faucher
Vice-President and Controller

Luc Jobin
Vice-President,
Business Development

Hugh W. McAdams
Vice-President and Treasurer

Peter McBride
Vice-President,
Communications and
Investor Relations

Denise Perrault
Vice-President,
Human Resources

Jodi White
Vice-President,
Corporate Affairs

Katrin Nakashima
Secretary and Senior Counsel

Édouard Darche
Assistant Treasurer

Pierre Leclerc
Assistant Secretary

Imasco Holdings, Inc.

Two Blue Hill Plaza
Pearl River, NY 10965-8588,
U.S.A.

Lloyd J. Schnell
President

Imasco Finance L.L.C.

Corporate Trust Centre
1209 Orange St.
Wilmington, DE 19801,
U.S.A.

Lloyd J. Schnell
President

Imperial Tobacco

3810 St. Antoine St. W.
Montréal, QC H4C 1B5

R. Donald Brown
Chairman, President and
Chief Executive Officer

Michael A. Courtney
Executive Vice-President

Roger S. Ackman
Vice-President,
General Counsel and
Secretary

Jean-Paul Blais
Vice-President,
Marketing

Marius Dagneau
Vice-President,
Human Resources

Pierre Duhamel
Vice-President and
Chief Financial Officer

Patrick J. Dunn
Vice-President,
Quality Management

Thomas F. Lee
Vice-President,
Leaf

Yvon Lessard
Vice-President,
Operations

CT Financial Services Inc.

161 Bay St.
Toronto, ON M5J 2T2

Purdy Crawford
Chairman

W. Edmund Clark
President and
Chief Executive Officer

John F. Schucht
Chief Operating Officer

Christopher J. Stringer
Executive Vice-President,
Corporate Services

William C. Thornhill
Executive Vice-President,
Business Strategy

Robert J. Cummings
Senior Vice-President,
Customer Lending

Paul W. Derksen
Senior Vice-President and
Chief Financial Officer

Joseph M. Morabito
Senior Vice-President,
Western Canada

John D. Steep
Senior Vice-President,
Metro Toronto and
Eastern Canada

Duncan F. Tilly
Senior Vice-President,
Executive Resources

Ronald B. Trace
Senior Vice-President,
Financial Advisory Services

Diane E. Walker
Senior Vice-President,
General Counsel and
Secretary

Gwyn E. Williams
Senior Vice-President,
Central Ontario

Michael D. Woeller
Senior Vice-President,
Banking and Information
Services

Alan D. Wolfson
Senior Vice-President,
Marketing and Customer
Strategy

Peter H. Williams
Chairman,
CT Securities

Gary G. Brent
President and
Chief Executive Officer,
CT Private Investment
Counsel

Bernard T. Dorval
President,
CT Insurance

Anne K. Dines
Vice-President,
Audit Services

M. Suellen Levi
Vice-President,
Human Resources

Dianne K. Smith-Sanderson
Vice-President,
Corporate Communications

*First Federal Savings and
Loan Association of
Rochester, NY*

One First Federal Plaza
Rochester, NY 14614-1996,
U.S.A.

Thomas N. Borshoff
Chairman, President and
Chief Executive Officer

Thomas J. Mullin
Vice-Chairman and
Senior Executive
Vice-President

Mark H. Chaplin
Executive Vice-President,
Consumer Financial Services

Linda L. Williams
Executive Vice-President and
Chief Administrative Officer,
Mortgage Banking Group

Hardee's Food Systems, Inc.

1233 Hardee's Blvd.
Rocky Mount, NC
27804-2815, U.S.A.

Robert F. Autry
Chairman

H. Stephen McManus
President and Chief
Executive Officer

Raymond J. Perry
Chief Operating Officer

Breen O. Condon
Executive Vice-President,
General Counsel and
Secretary

Daniel M. Ginsberg
Executive Vice-President,
Marketing

Richard L. Hall
Executive Vice-President and
Chief Financial Officer

Gerald L. McGinnis
Executive Vice-President,
Restaurant Development

Nancy J. Abram
Senior Vice-President,
Marketing Development

James L. Jaffre
Senior Vice-President,
International/Franchising

Marvin J. Kopp
Senior Vice-President,
Human Resources

James H. Speed, Jr.
Senior Vice-President
and Controller

Coleman Sullivan
Senior Vice-President,
Corporate Affairs

Al Schnitzlein
Chief Operating Officer,
Roy Rogers Division

Brent R. Michaels
Senior Vice-President,
Operations, Area II

Richard Kerchenko
Senior Vice-President,
Operations, Area III

John M. Lentz
Senior Vice-President,
Operations, Area IV

Fast Food Merchandisers, Inc.

Rocky Mount, NC

F. Winslow Goins
President

Dean Spangler
Executive Vice-President,
Operations

Shoppers Drug Mart/Pharmaprix

225 Yorkland Blvd.
Toronto, ON M2J 4Y7

Murray B. Koffler, O.C.
Honorary Chairman

David R. Bloom
Chairman and
Chief Executive Officer

Herbert R. Binder
President and
Chief Operating Officer

Dale Daley
Senior Executive Vice-
President, Operational
Services

Marvin A. Goldberg
Senior Executive Vice-
President, Legal and
Corporate Affairs, and
Secretary

Albert A. Krakauer
Senior Executive Vice-
President, Professional and
Organizational Development

Kenneth A. Sloan
Senior Executive Vice-
President, Finance and
Planning, and Chief Financial
Officer

Stanley A. Thomas
Senior Executive Vice-
President, Marketing

Fred K. Van Laare
Senior Executive Vice-
President, Operations

Louis M. Goelman
Executive Vice-President,
Logistics

Gary MacPhee
Executive Vice-President,
Atlantic

Claude Allard
Executive Vice-President,
Pharmaprix

Marvin Kopstick
Executive Vice-President,
Ontario East

Genstar Development Company

Pacific Tower
4365 Executive Drive
Suite 1470
San Diego, CA 92121, U.S.A.

Les Cosman
Chairman

Frank L. Thomas
President and
Chief Executive Officer

Brian K. Laidlaw
Executive Vice-President

Gina R. Papandrea
Senior Vice-President,
Finance

Brian P. Relph
Executive Vice-President,
Ontario Central

Isadore Snyder
Executive Vice-President,
Ontario West

Cliff Proceviat
Executive Vice-President,
Prairies

Terry Morrison
Executive Vice-President,
B.C.

Elie Ajram
Senior Vice-President,
Strategic Planning

Bruce A. Burgetz
Senior Vice-President,
Information Technology

Raymond A. Hallett
Senior Vice-President,
Human Resources

Arthur Konviser
Senior Vice-President,
Public Affairs

Stephen J. Langford
Senior Vice-President,
Merchandising

Gordon Stromberg
Senior Vice-President,
Advertising

Roman P. Niemy
President, Corporate Brands

Terry L. Creighton
Vice-President, Government
Affairs and Environmental
Issues

Bryna Goldberg
Vice-President and General
Counsel

Investor Information

Incorporation

Imasco Limited was incorporated under federal charter on April 3, 1912 and continued under the Canada Business Corporations Act on August 6, 1976.

Annual meeting

The Annual Meeting of Shareholders will be held at 2:30 p.m. on May 1, 1996 at Le Westin Mont-Royal Hotel, 1050 Sherbrooke Street West, Montréal, Québec.

Shareholder and analyst contact

Peter McBride, Vice-President,
Communications and Investor Relations
(514) 982 6407

Other enquiries

Imasco
600 de Maisonneuve West/Ouest
20th Floor/20^e étage
Montréal, QC H3A 3K7
(514) 982 9111
Fax: (514) 982 0162
Internet: <http://www.imasco.com>

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec le Secrétaire à l'adresse ci-haut.

Stock exchange listings and ticker symbol

IMS: Montréal, Toronto, Vancouver

Reporting calendar

The year-end is December 31. The annual report is mailed in March, and quarterly results are mailed in May, August, November, and February.

Dividend dates

Quarterly: at the end of March, June, September, and December.

Transfer agent and registrar

Montreal Trust Company
Stock Transfer Services
Place Montréal Trust
1800 McGill College Avenue, 7th floor
Montréal, QC H3A 3K9
(514) 982 7555

Montreal Trust is responsible for the maintenance of shareholder records and the issue, transfer, and cancellation of stock certificates. Transfers can be effected in their Montréal, Halifax, Toronto, Winnipeg, Regina, Calgary, and Vancouver offices. Montreal Trust also distributes dividends and shareholder communications. Enquiries with respect to these matters and corrections to shareholder information should be addressed to Montreal Trust, Stock Transfer Services.

Dividend reinvestment and share purchase plan

Imasco maintains a dividend reinvestment and share purchase plan for the benefit of common shareholders. Under the plan, eligible shareholders can elect to invest their dividends in additional common shares. They can also increase their holdings by making optional cash payments, subject to certain quarterly limits. In both cases, the brokerage fees are paid by Imasco. Further information on the plan can be obtained by contacting Montreal Trust, Dividend Reinvestment Services, (514) 982 7666.

Direct dividend deposit service

For convenience and security, Imasco offers a direct dividend deposit service to its Canadian shareholders. The dividend payments are transferred electronically to the shareholder's account with a financial institution on the date they become due. Shareholders wishing to take advantage of this service should direct their request to Montreal Trust, Stock Transfer Services.

Payments of dividends to U.S. residents

Shareholders with addresses of record in the United States receive dividends in U.S. funds. The dividend amount is converted at the Bank of Canada noon rate of exchange on the record date. Canadian withholding tax is deducted.

Auditors

Deloitte & Touche
Chartered Accountants
1 Place Ville Marie, Suite 3000
Montréal, QC H3B 4T9



